1907 — Business, Financial and Investment Counsellors — 1928

Securities for Mid-Year Re-Investment

MAGAZINE OF WALL STREET

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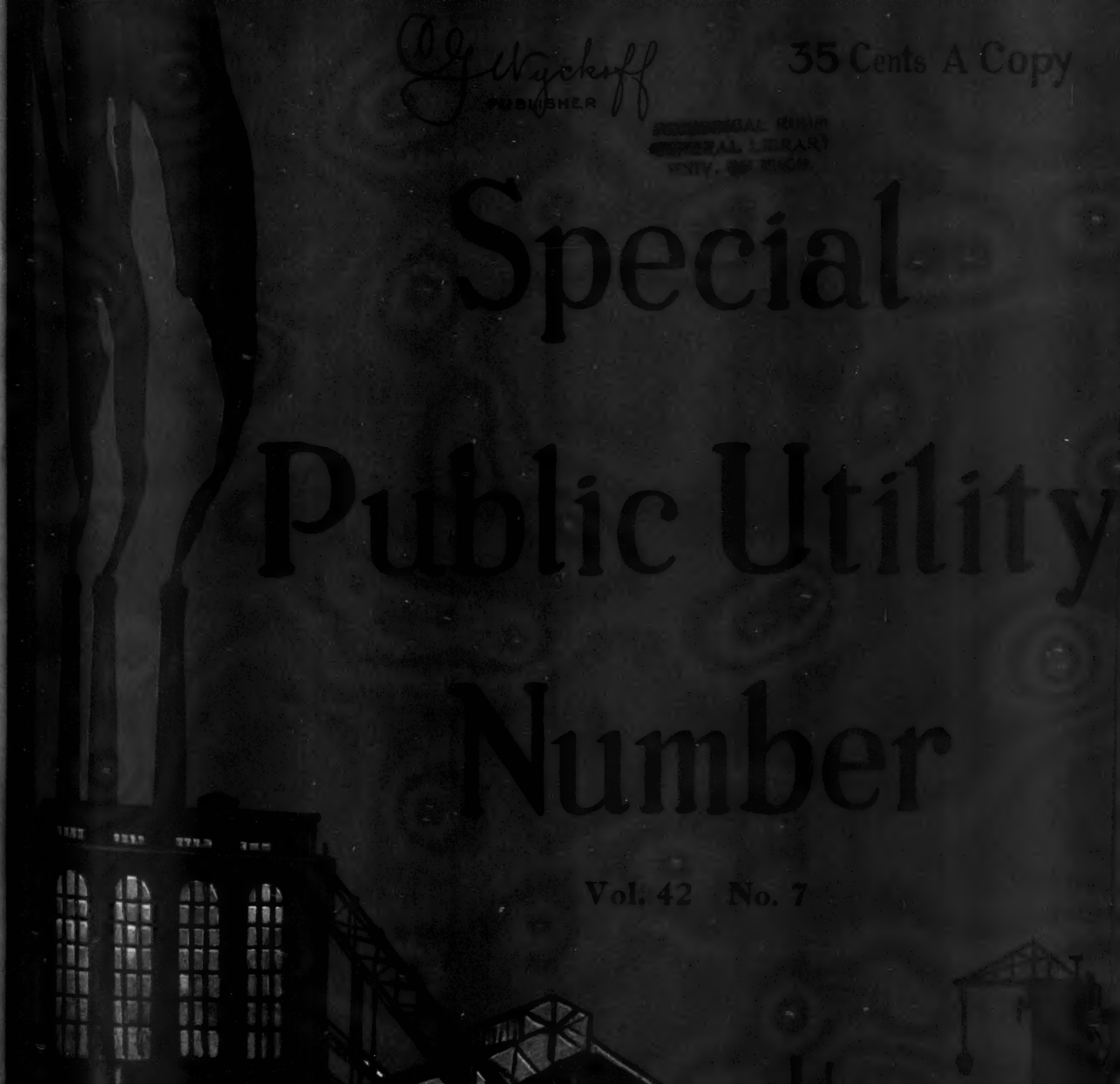

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WITH THE EDITORS

Some Well-Known Contributors to The Magazine of Wall Street

A Galaxy of Political Stars

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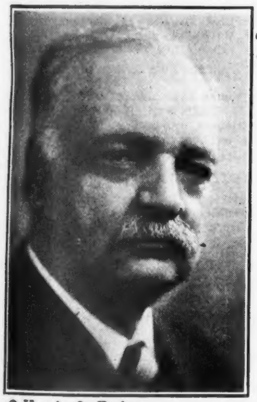
Hon. Herbert Hoover



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Senator Charles Curtis

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Ex-Gov. Frank Lowden

DURING the past several years, THE MAGAZINE OF WALL STREET has numbered among its contributors some of the greatest Government authorities and political lights. It is especially interesting to look back to the striking contributions of such men as Secretary Hoover and Governor Smith.

Both the Republican and Democratic nominees for the Presidency have uttered their views on vital affairs in this publication, and it is of interest to point out that both the nominees for the vice-presidency, Senator Curtis and Senator Robinson, have also been contributors. Among some of the more important contenders for the presidential nominations in the two recent Conventions who have written for this publication or given interviews to its representatives have been ex-Governor Lowden, Senator "Jim" Reed of Missouri, Cordell Hull of Tennessee and Atlee Pomerene of Ohio.

THE MAGAZINE OF WALL STREET deems it important to present before its readers the best and most timely news and opinion on the current financial, political and business topics of the day, and secures its information from the most authoritative sources.

We point with honest pride to this achievement which, we believe, is not common in financial journalism. Our effort will be to continue this important feature of our work not only with regard to publishing the views of leading figures in American business, financial and political life but, also, those of the influential men abroad.

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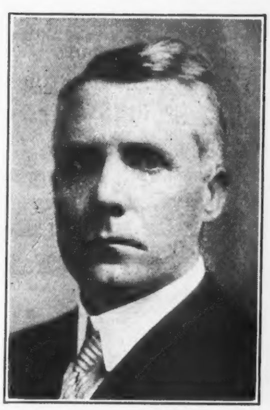

Senator Jas. A. Reed

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This new booklet gives a descriptive and historical sketch of one of the largest public utility companies in the country now responsible for public service in more than 1,000 communities. (362).

WHY WE CHOSE ATLANTA
See what Atlanta can mean to your business. Send for this free booklet giving the experience of more than 600 concerns now in Atlanta. (363).

MAKING PROFITS IN SECURITIES
Are you profiting by the major and also the minor swings of the market? If not, you will be interested in the above booklet issued by a leading financial service in New York City. (377).

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Interesting facts about the development of one of the largest public utility Systems in the United States will be found in this interesting free booklet. (380)

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This booklet gives a most comprehensive description, not only of the Port of Newark, but also of the trading territory immediately adjacent to it. It is well worth reading for the information it contains. (410).

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The sound investment principles followed by the Brookmire Service and the adaptability of these principles to the requirements of every investor, large or small, is described briefly in this interesting booklet. (413).

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IF YOU ARE INTERESTED
in an 8% return on your money with absolute safety, consider the investment features of the B. & L. shares issued by a strong Florida Building & Loan Association. (416).

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- Greater retail opportunity for medium sized city stores.
- A. D. S. plans to capitalize this changing trend.
- Early history of the company.
- Comparisons of chain store stocks.

Any buyer of chain store securities will be interested in this data. (424).

MAKING MONEY IN STOCKS
If you are interested in the stock market you will enjoy reading the recent book published by the Investment Research Bureau. It describes in detail the Bureau's Financial Service, and will be mailed to you free upon request together with current stock market and special reports. (425)

INVESTMENT TRUST POCKET MANUAL
showing par values, dividend rates, dates payable, market ranges, 1927 to 1928, on 150 active investment trust securities, and other valuable data, is being offered free by a concern specializing in Investment Trust Securities. (429).

INVESTMENT TRUST SHARES
Guaranteed marketability is an outstanding feature of the shares issued by the Prudential Company, a leading Investment Trust house. The trustee is obligated to buy back these shares at the selling price of the stocks, forming the security, all of which are listed on the New York Stock Exchange. (430).

The MAGAZINE of WALL STREET

C. G. WYCKOFF
PUBLISHER

E. D. KING
MANAGING EDITOR

INVESTMENT & BUSINESS TREND

International Phases of High Money Rates Here —New Financing Declines—The Rediscount Rate—Brokers' Loans—The Market Prospect

ONE of the most interesting developments attendant upon the advance in money rates in this country has been the recent drop in foreign exchange values. This undoubtedly is in reflection of a flow of money from abroad which is already commencing to assume considerable dimensions. Higher money rates in the United States are naturally bound to attract funds here from the chief money centers of the world, based on the fundamental law that money will go where it can earn the most. There are several important sources of this return flow of capital. One of these is the funds transmitted to the American call money market by foreign private banks. Another is the return of home capital presently employed in Europe by American banks and others brought on, of course, by the high money market at home. The third is the sale of foreign securities held by American interests who believe that they can secure at least an equal return by taking advantage of the present situation. As a result of these forces, the return flow of capital is becoming a factor in the home situation, sufficiently to have already brought the call loan rate down from 8 to 6%. This change, however, is of surface character which might be altered to some degree by such factors, for example, as fluctuations in foreign exchange rates or by higher money rates abroad.

From the fundamental viewpoint, the loss in gold supplies is of greater significance for this has definitely caused a contraction of available credit. Until this latter situation changes or until the present extended position of the banks is improved no permanent relief may be expected from the receipt of funds from abroad. At the same time, it is essential to recognize that this return flow of capital tends to exert an ameliorative influence so far as the call money market is concerned. It remains to be seen whether this influence will be extended.

NEW FINANCING

AS a result of the decline in bonds and the somewhat congested condition of the new securities market, new financing has been kept down to small proportions. Liquidation of government and other bonds by banks in order to take advantage of the call market and to place their reserves in better position has brought about a selling movement which has made it difficult to move that portion of issues which had been brought out in recent months and which had not been sold to private investors and other buyers. Obviously, this has discouraged investment houses from further clogging up the market. For the present, investment firms are interested in reducing their "inventories" but do not expect much success until the money trend shows signs of changing. In the meantime, it is of interest to note that private investors and insurance companies consider the present level of bonds low enough to warrant their entering the market again though probably on a limited scale.

REDISCOUNT RATE

WITH the way led by the Chicago Federal Reserve Board and promptly followed by the New York bank, the rediscount rate has been moved up from 4½ to 5%. At this writing, several of interior Federal Reserve banks have followed this move. Presumably, all the twelve banks within a short period will be on a 5% basis. If the Federal Reserve Board is intent upon reducing borrowings for security purposes, it is a question of doubt whether this can be accomplished by equalizing the rate among all the banks. Close observers believe that a more effective instrument would be to keep the New York bank rate lower than that in most of the interior banks. This would have the tendency of diverting funds presently employed by interior banks in the New York market back to their origin. Such pressure on New York, it is believed, would result in bringing about the security liquidation on which, evidently, the Federal Reserve Board has set its heart.

BROKERS' LOANS

IN publishing its brokers' loans statement, the Federal Reserve Board unfortunately does not segregate its figures into loans on bonds and loans on stocks. This has made it impossible to ascertain, except by conjecture, to what extent the increase in brokers' loans has been due to stock speculation or to bond financing. It is well known that the great activity in new financing up to the end of the fifth month of the year increased the borrowings of investment dealers and therefore of the banks who render this accommodation. On the other hand, the great speculative activity in stocks last Spring undoubtedly also had an important influence on loans. Which has been the predominant influence has become "x" in the equation and until it is solved, it would seem that a really comprehensive understanding of the significance of brokers' loans will be difficult to achieve at on a scientific basis. It would be a great aid to those whose business it is to closely observe the workings of finance and investments, if the Federal Reserve Board extended the service it is now performing by segregating the loan figures.

BUSINESS CONDITIONS

AN air of uncertainty surrounds the securities markets owing to the money situation but the clouds seem to be lifting a bit from the business landscape. Various commercial agencies report that business is better than was thought possible a short time ago. For example, seasonal influences which generally at this time have some effect toward curtailing manufacturing operations have not thus far made a pronounced impression. Employment has increased and consumption of goods is on a fairly high plane. The price situation still gives some concern with the margin of profit not as high as it ought to be. Also higher money rates may have some effect in retarding the recent tendencies toward improvement. Nevertheless, the present seems a net gain for business as a whole with fairly good prospects for the balance of the year.

POLITICAL SITUATION

THE recent conference between Mr. Hoover and President Coolidge indicates the close relationship and harmonious understanding between the two. In the most astute circles, it is believed that Mr. Hoover may be depended upon to carry out Mr. Coolidge's policies and to add to them by drawing upon his enormous fund of practical experience and knowledge. A smooth flow of good business is a pleasant thing to look forward to.

MARKET PROSPECT

THE market gives the aspect of a hound held sternly in leash, the leash in this case being the high money market. There is no question but that Federal Reserve policies leading to credit restriction for speculative purposes have had at least the result of greatly tempering speculative activity. Average daily transactions on the New York Stock Exchange, for example, are now less than half of what they were several months ago. The market is bound to be sensitive to changes in the money rate situation under present conditions. Small rallies and declines according to fluctuations in the money rate are to be expected. The market itself reflects this condition in its inability to establish a definite trend. In the meantime, it is to be noted that stocks of genuine investment merit and which are selling on an attractive yield basis are commencing to show definite signs of resistance to selling. General uncertainties in the stock market, however, complicated by a degree of congestion in the bond market, do not lend much support to the hope of early resumption of the broad upward move terminated last June.

Monday, July 23, 1928.

Public Utility Industry Faces Future With Confidence

By E. D. KING

EACH year, it has been the settled policy of this publication to issue a complete review of the activities and important developments relating to the public utility industry. This year, in the special section devoted to this purpose, we have continued the policy of bringing to the attention of the reader the salient points regarding the industry's chief problems and its important phases in general. Much of the material therein presented is necessarily statistical and informative from the factual viewpoint but there is an element in the situation which it seemed wiser to treat in this editorial fashion. The reference is to the astonishing degree of confidence reposed in the managers of the industry in the face of the investigation now being conducted by the Federal Trade Commission. It is as if the public had intuitively estimated the situation at its true value and had come to the conclusion that the manipulation and unfair methods of the few should not be confused with the constructive efforts and essential honesty of the many who are devoting themselves to the efficient operation of the industry.

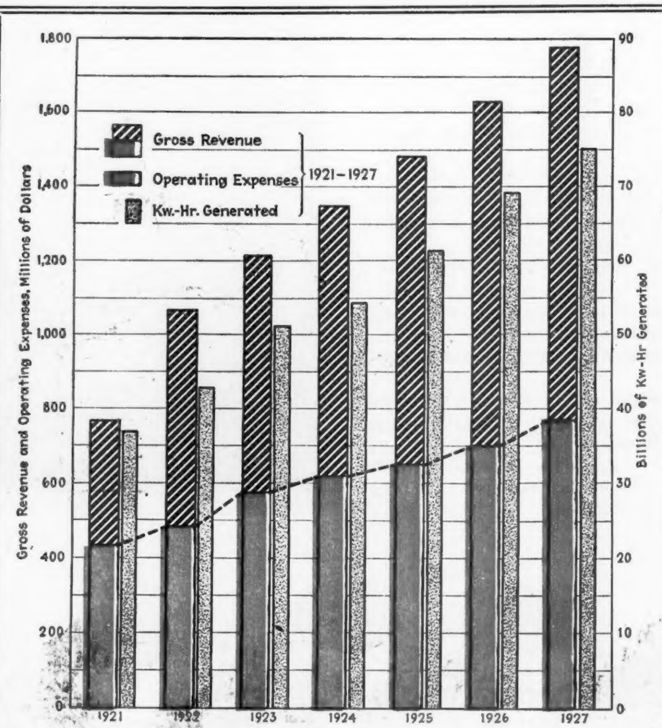
Millions of men and women today are bondholders or shareholders in the public utility companies. As illustrated by the enviable investment position of the average public utility security, the public has been satisfied on the score of the soundness of their investment. To undermine the confidence of these people in public utility securities would be a great injustice and would work irreparable hardship. Fortunately, the public seems to estimate the function of the investigation at its true value and has not been led to abandon confidence in their investments.

At about the time arrangements for the Federal Trade Commission investigation were completed, the legislature of the State of New York passed an important measure whereby certain types of properly qualified public utility bonds were declared legal vehicles for investment by savings banks and a limited group of preferred stocks were declared legal for investment by insurance companies. This tangible recognition of the essential soundness of the status of this group of securities by the State of New York is an important development for it foreshadows the time when high-grade public utility issues will be as scarce as the so-called legal railroad bonds are today.

From the viewpoint of internal economy, the industry has made progress this year. There have been a number of important consolidations and most companies have shown that their control over operating expenditures is not diminished in any way. The result of the latter is that earnings this year are expected to be very satisfactory.

The general outlook for the industry continues as favorable as at any time in the past few years. Growth of population and expansion of industries provide a satisfactory basis for the assumption that gross receipts will continue to grow. Capital has become somewhat more expensive but the larger systems have already safeguarded themselves for the time being by anticipating the situation, many of them having refunded or issued new securities on highly favorable terms when the money market was lower. Continued efficiency of operation should be reflected in increasing net earnings.

Altogether the public utility field endows the investor with opportunities at least equal to any other important group with assurance of satisfactory dividends and gradual growth in market value. The industry, for the most part, is soundly managed and in a fundamentally strong position.



ANNUAL INCREASE FOR FIVE YEARS AVERAGES MORE THAN $140,000,000 IN REVENUE AND 6,500,000,000 KW.-HR. IN OUTPUT
Reprinted from Electrical World.

How the Loss of Gold Affects American Finance and Business

By THEODORE M. KNAPPEN

HAS the golden tide turned?

In 1914 the total stock of gold coin and bullion in the United States was $1,872,000,000; in 1927 it was $4,565,000,000 at mid-year, it was as high as $4,610,000,000 in April, 1927; per capita, the increase was from $18.90 to $39.04.

In the year ending June 30, 1919, there was a decrease of over $400,000,000, but from then on there was a gain in each fiscal year except 1925, and a total gain of $1,800,000,000 in seven years, or about twice as much as the net gain from 1914 to 1920, and equal to our entire monetary gold store in 1914. We held almost 50% of the world's monetary gold, a phenomenon without precedent in the history of finance.

Some of the wise men who came to gaze upon the greatest wonder of gold's world-old romance said that gold would drown us, others said the drouth behind would burn up the foreign world.

Loss of Gold

But beginning with May, 1927, we have suffered a net loss of gold. There was a trifling net import of $6,000,000 for the calendar year 1927, but this was more than offset by an increase of $160,000,000 in the quantity of gold held under earmark for foreign account. The outward movement has continued unabated, so that during the period from September 1, 1927, to June 30, 1928, our net loss amounted to over $500,000,000. At the end of June our gold holdings were almost $500,000,000 less than for the record month of April, 1927, when they stood at $4,610,000,000.

This decline of a half a billion in thirteen months is characterized by some competent commentators as being as remarkable and as potent as the upward swing of the preceding seven years.

Concerning the reversal of the international gold movement, a number of questions are being anxiously asked, as:

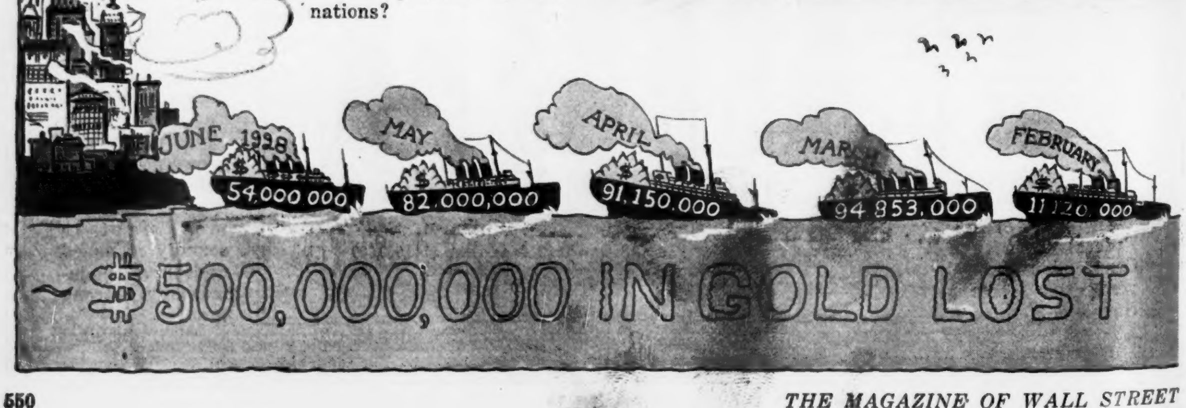
1. Is it a reversal that is likely to continue for a long period and to a comparatively large total?
2. If so, what will be the consequences in the United States on—
   (a) Federal Reserve Bank policies, such as discount rates and open market operations;
   (b) General credit conditions; and, consequently
   (c) Business?
3. What will be the effects on our foreign financial and commercial relations?
4. What effects on the economic position of other nations?

In considering the answers, it is necessary to study the causes and consequences of the enormous growth of the gold stock of the United States during recent years.

The Background

The violent dislocations of international economic relations caused by the World War inevitably resulted in heavy international balances of trade in favor of the United States, which, until we entered the war, had to be settled in gold and by the sale to us of European holdings of American securities acquired pre-war. Europe bought from us during this period much more than the sum of its heavy borrowings plus its slender exports. After our entry into the war, the credits made available by our Government largely reduced the necessity of shipments of gold to us. Part of the heavy price of victory paid by the allies was the transfer of about $1,400,000,000 of gold to the United States in the period 1914-1920. This increase in our gold holdings was almost as much as the entire hoard of the United States before the war.

In 1919 there was a back flow due primarily to the lifting of our war-time embargo on gold export, and the wiping



out of the war-time premiums on Latin American, Spanish and Swiss exchanges. The rehabilitation of Europe required heavy imports from the United States and the normal demands for our commodities tended to return. The enactment of the emergency and Fordney-McCumber high tariff acts made it difficult for Europe to increase her exports to us in proportion to her imports. The net international balances continued inevitably to be settled in gold.

In the next place, during all this war and post-war period the United States was virtually the only important nation in the world to remain strictly on the free gold standard. Here gold has always been obtainable in exchange for currency or bills of exchange and, consequently, owners of gold found the United States the best place to lodge it, either in the form of deposits or short-term investments.

By reason of this fact, and changes in their regulations or practices in regard to reserves, foreign central banks found it good business to send gold to the United States and convert it into short-time securities or deposits. In this manner they kept up their currency reserves and at the same time earned interest on them. Then, again, even when the foreign central banks converted securities into gold it was economical to let it remain here, "ear-marked" for their requirements, rather than to meet the costs of shipment to their vaults, where it would serve them no better than here.

It is calculated that the foreign deposits which are short-term investments in this country exceed our corresponding holdings abroad by at least $1,000,000,000.

Federal Reserve Policy

All the time we were receiving gold in enormous quantities the Federal Reserve authorities so controlled the situation, by maintaining high discount rates—and also by putting a billion dollars of gold into circulation in the form of gold certificates—as to "sterilize" the gold imports, that is, no expansion of credit was permitted corresponding to the growth of the gold pile. Normally, the influx of gold should have resulted in cheap money, business expansion and price inflation, all of which would have tended to facilitate the entry of foreign goods through our tariff barriers, and thus check the need for gold imports to settle large balances in our favor. Instead of a rise in commodity prices, there has come a decline; the foreigners have found competition in the American market harder than ever, notwithstanding the fact that we have taken their gold in great quantities, and theoretically should have hoisted prices.

By 1924, however, the American gold pile had reached such proportions that manipulation of bank rates could not neutralize its natural quantitive effect on credit and expansion of credits and business set in. Our "corner" on gold had the effect of appreciating gold and depreciating prices throughout the outer world. Notwithstanding the expansion of credit there was also a fall in American price levels, due to unprecedented industrial and commercial innovations. Many business enterprises had become so wealthy as to be practically independent of bank loans and even to have money themselves for call-money and other short-time investment. Hand-to-mouth buying had resulted in more business on less credit and the expedition of freight transport had similar results. The amazing gain in productivity of American labor and machinery made possible increase of output and turnover without a corresponding increase of capital. Business, still sore from the 1920-21 drubbing, was opposed to a credit boom. Finally, there was the Federal Reserve System with its artificial means of offsetting a surfeit of gold. Prices went down instead of up, America was not choked in gold, as European economists had hoped and confidently predicted; and the gold kept on coming—partly because foreign goods could not come in greatly increasing volume into a low-priced market, behind a high tariff barrier.

The only reason that we did not attract more gold than we did was that while we did not buy from foreign nations in excess of our exports to them, we did lend money to them most generously. Last year we advanced foreigners $1,500,000,000 in long-time loans, and the total of our private foreign loans and investments is now about $14,000,000,000. Some of this lent money took the form of gold, thus cutting down the net amount of our gold imports. Nevertheless, the piling up of foreign credits tends to create a "head" for more gold to flow into this country at a later date—if there is any left to flow—so long as we keep down imports of goods, through high tariffs.

Beginning last August, the Federal Reserve Banks began to help the gold situation in the direction of reduction of the American accumulation, through lowering the discount to a better market here, because the better rate of 3½%. This cut off the flow of funds market then shifted abroad. It resulted

Interior of a ship's hold. Gold is shipped in kegs like ordinary merchandise.

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Reserve System and the Present Money Situation

By H. PARKER WILLIS*

WE are now in the midst of our annual stock taking as to banking and credit policies. This survey usually comes after an unfortunate experience and as a result of heedless neglect of known conditions. So it is in this case. A year ago the Federal reserve system embarked upon a low rate discount policy coupled with open market operations designed to make money conditions more and more easy. The result has been: (1) A great loss of gold; (2) an excessive stock speculation which has established a dangerous condition in the security market; (3) a general weakening of the banking position, and (4) a variety of indirect business effects of injurious character. Coupled with these results has gone the adoption of autocratic and probably illegal-methods of enforcing the policy, as illustrated in the Chicago bank rate case during the summer of 1927.

**Professor of Banking, Columbia University.*

(*Please turn to page* 638)

By GROSVENOR JONES*

SOME of our worst troubles are those that never happen—oftentimes the ones that have given us the most worry. For a number of years we have been having no end of worry about the trouble we were going to get into because we had unintentionally acquired nearly half of the world's gold supply.

Now that the force of events begins to move some of the mountain of gold back whence it came, we promptly begin to worry about the trouble it may cause us. In the first instance we worried over a problem that has never been acute; in the second instance we worry because the problem begins to approach ultimate solution.

As a matter of fact, the way we have dealt with the inward flow of gold ought to give us confidence that we shall be able to deal successfully with the current setting the other way.

If we have too much gold for normal times and

**Chief of the Finance and Investment Division, U. S. Department of Commerce.*

(*Please turn to page* 637)

in credit expansion here, which had the effect of substituting book entries for gold or goods in payment for our exported goods. The motives of the reserve bankers were to help Europe back to the gold standard, to facilitate exports of American goods, chiefly agricultural products, which Europe was finding it increasingly difficult to buy with gold always as the ultimate price. Perhaps, also, there was a deliberate intention of experimenting with a policy of shifting some of our "useless" gold back to Europe "for keeps." France alone has taken $250,000,000 from the American gold store in the slow and dexterous process of returning to the gold standard (gold bullion standard) and altogether about $500,000,000 of gold has gone out.

Europe was helped in the remonetization of gold and exports were benefited but the effects of credit expansion—mobilized in speculation rather than in productive business—alarmed the Federal authorities. With a half point increase in the rediscount rate in February and another in April, and by the sale of securities, they sought to check expansion. Interest rates have stiffened, call-money has gone to dizzy heights; but loans and discounts continued to increase and gold exports boomed up to $91,000,000 in the month of May; at the same time ear-marked gold for foreign account increased from December on, after having increased $160,000,000 during 1927. The commodity price index has advanced slightly, but is still below the 1926 level.

Reginald McKenna's Views

After all, if we have a dangerous surplus of gold, why should we view its withdrawal with concern? It has been suggested by some economists, who have feared the inflationary effects of excessive gold, that we should take steps somehow to segregate a part of our store as eventually intended for withdrawal by the outside world, and so get it out of our credit base before "sterilization" loses its efficacy. As a matter of fact the Federal Reserve Board did "sterilize" the credit potency of $1,000,000,000 of the surplus gold by putting it into circulation, where it had exactly the same effect as if it had been ear-marked; except as part of the secondary reserves. It was out of the reckoning so far as the gold structure of credit was concerned.

If the excess takes itself out of the country and out of the base before it is too late, why should we not rejoice?

To be sure, so great an authority as Sir Reginald McKenna, British chancellor of the exchequer, has said that the Federal Reserve System can so well protect American finance against inflation resulting from the oversupply of gold that it has really made the dollar itself rather than gold the world's monetary standard. "If the price movement was in gold," he says, "the purchasing power, or the value of the dollar, would still depend, as it did formerly, on the value of gold. But we know that this is not so. The American price level is controlled by the policy of the Reserve Banks in expanding or contracting credit." Regarding only what the Reserve Banks had succeeded in doing up to three years ago, Sir Reginald would be justified, and keeping one's eyes directed only to commercial and industrial inflation, it might still be thought that he was justified. So far business has not been hypnotized by the sheen of the great gold pile; it still recalls the collapse of 1921, after the inflation of 1920; it is not eager to spend and adventure.

On the other hand, it is the business of bankers to deal in money and credit, and times are hard with them when their stock is not in demand. It is against even "inhuman" banking nature to resist forever the temptation to enjoy profits. Every banker of sense must know that no ultimate good can come from the frenzied financing of speculation, and yet that is just what the greatest of the bankers have been doing. Brokers' loans have reached the tremendous total of over $4,000,000,000 as this is written — and the Chicago Reserve Bank and the New York bank have nervously raised the re-discount rate to 5%. They have succumbed to the fatal charm of the mountainous pile of half the world's gold in the possession of less than a tenth of its population. The descent toward the Avernus of hazard is easy once it is started, and sooner or later the golden hoard will tempt the business world to taste and then to riot in credit extravagance. The American inflation that would follow, the natural price of the amassment of gold, would be highly enjoyable at home, while it lasted, and most avidly welcomed by Europe. Goods would pour in from the looms and forges of Europe and gold would flow out in a steady stream. And then the morning after! The gold would be distributed and we would be retributed. Let the world take its cash now, if it will—and also its credit, and thereby leave us to future peace.

Gold Exports Past Peak

As to the future of the gold movement, it appears that the "hump" of gold exports required to assist in the restoration of the gold standard is over—that has been accom-

plished, generally speaking. With the gold standard in general vogue, the flow of gold to the United States when that standard was not to be found elsewhere will tend to cease, insofar as the standard was the magnet. The writer can see no reason why variations in price levels should henceforth differ much between the United States and Europe. There will be no price incline to hasten gold to Europe unless the Federal Reserve Banks should unleash inflation.

Assuming that the decline in commodity prices over a period does not proceed more rapidly abroad than in the United States, gold will not be drawn abroad by a commercial attraction. The maintenance of higher discount rates here than abroad should tempt free gold to remain or return. It is entirely within the determination of the outside world as to whether large quantities of gold shall be withdrawn from the United States—the ear-marked gold that belongs to it, or that it can obtain in exchange for short-time credits already existing. If Europe needs a billion more of gold it can take it if it will. The moral effect of parting with a billion of "useless" gold precipitately might be unpleasant temporarily, but there is no reason why it should permanently affect business in the United States. The international creditor position of the United States exerts a continuous pressure on gold to move toward this country—a pressure that is always operating against pressures or policies in the opposite direction, and for those countries that permit their central banks to count bank deposits and short-time investments here as reserves there is always a reason for leaving their gold or gold equivalent here. It serves here the double purpose of reserve and investment.

Untapped Credit Reserves

But suppose that for any reason, or no reason at all, except caprice, the foreigners should withdraw all the gold at their disposal! If it were done very suddenly it would produce a shock, because outside of ear-marked foreign gold, the credit base of the Federal Reserve System would be constricted by just that much. That base is so ample, however, that the loss of a billion dollars of gold would not practically affect the volume—so far are we from using the possibilities of secondary credit expansion.

The present situation affords a striking illustration of the untapped credit reserves. "During recent months," says the June number of the Federal Reserve Bulletin, "increasing pressure on member banks through gold exports, security sales by the reserve banks and advances in discount rates has not had the effect of arresting rapid expansion of member bank credit." It has, however, "resulted in greatly increasing the indebtedness of member banks to the reserve banks. In the middle of May discounts by the reserve banks for members amounted to $800,000,000 (in June they had increased to almost $1,200,000,000) the largest amount in more than four years, and in addition the reserve banks held $350,000,000 in acceptances purchased from the member banks and from dealers."

Nearly five hundred millions of gold has gone out, but actually credit has expanded! This secondary credit expansion function of the Federal Reserve System has been hardly touched. By secondary expansion is meant the expansion of credit obtained by member banks borrowing from the Federal Reserve Banks. Primary credit expansion depends directly upon the gold reserves of the Federal Reserve System—one dollar of gold reserves will carry ten dollars of deposits, and so do the reserves established by borrowing.

Effect on Credit

Whilst continued outflow of gold is certain to result in high or higher rediscount rates and possibly continued sales of Reserve Bank securities, it need not necessarily have an adverse effect on credit. Were it not for the fact that business is spontaneously developing increasing momentum at this time the brake of higher interest might tend to slow it up. It has been proved that business will not speed up simply because money is plentiful, even though speculation boils.

If the United States has too much gold, then the rest of the world must be conceded to have too little. Our banking system, as has been explained, is such that we can part with an excess of gold without permanent, if any, injury; and we should be glad to see the excess used to wipe out the foreign deficiency. Any shifting of gold, under such conditions, can not fail to be of eventual benefit to the United States. We may regard the exports as merely the delivering of a safe deposit rather than an unwilling re-

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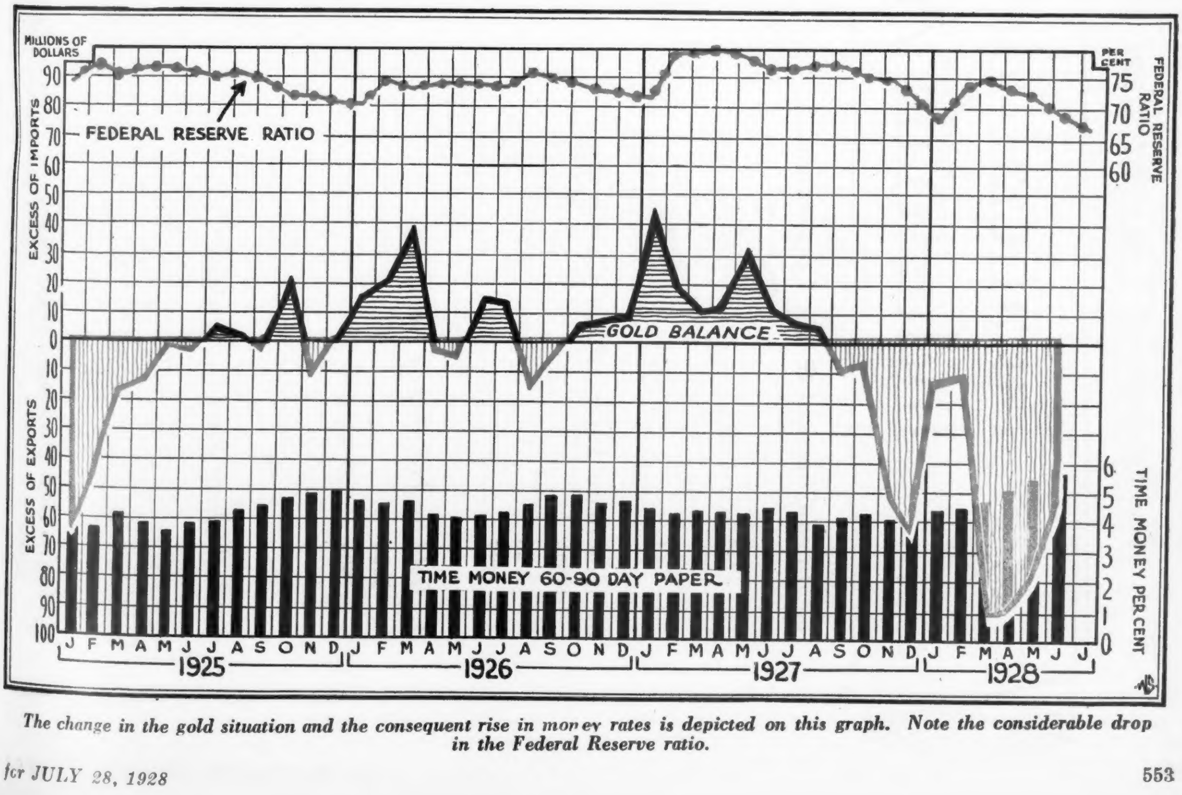


The change in the gold situation and the consequent rise in money rates is depicted on this graph. Note the considerable drop in the Federal Reserve ratio.

Are Industrial Consolidations Working Out Satisfactorily?

Financial Record of 20 Typical Industrials After Consolidations

1. *Allied Chemical & Dye Corporation.*

	Net Income (Millions)	Net Working Capital (Millions)
1925	20.5	115.8
1926	24.0	130.5
1927	24.6	133.1

2. *American Safety Razor Corporation.*

	Net Income (Millions)	Net Working Capital (Millions)
1925	1.1	2.5
1926	1.0	3.9
1927	1.0	4.0

3. *Belding Heminway Company.*

	Net Income (Millions)	Net Working Capital (Millions)
1925*	1.7	....
1926	0.8	10.0
1927	0.5	8.7

*Combined Earnings of Predecessor Companies.

4. *Bethlehem Steel Corporation.*

	Net Income (Millions)	Net Working Capital (Millions)
1925	13.9	119.0
1926	20.2	128.6
1927	15.8	122.3

5. *California Packing Corporation.*

	Net Income (Millions)	Net Working Capital (Millions)
1926*	6.0	18.7

11. *International Cement Corporation.*

	Net Income (Millions)	Net Working Capital (Millions)
1925	4.0	3.9
1926	4.4	5.6
1927	4.6	4.3

12. *International Paper Company.*

	Net Income (Millions)	Net Working Capital (Millions)
1925	3.6	21.7
1926	3.3	28.5
1927	5.7	25.7

13. *May Department Stores Company.*

	Net Income (Millions)	Net Working Capital (Millions)
1926*	6.8	24.3
1927*	7.0	26.5
1928*	6.5	24.5

*Years Ended January 31.

14. *National Dairy Products Corporation.*

	Net Income (Millions)	Net Working Capital (Millions)
1925	3.2	5.2
1926	9.9	7.0
1927	10.3	13.0

15. *Paramount Famous Lasky Corporation.*

	Net Income (Millions)	Net Working Capital (Millions)
1925	5.7	20.0

1927*	5.0	16.8
1928*	3.4	15.6

*Years ended February 28.

6. *Certain-teed Products Corporation.*

1925	2.1	8.1
1926	2.3	7.2
1927	2.3	7.7

7. *Congoleum-Nairn, Inc.*

1925	2.0	14.0
1926	0.7	13.9
1927	1.1	15.9

8. *Consolidated Textile Corporation.*

1925	(d) 0.6	6.7
1926	(d) 0.8	7.1
1927	0.2	7.2

9. *General Outdoor Advertising Co., Inc.*

1925	1.9	....
1926	3.2	4.9
1927	3.2	4.1

10. *Gimbel Brothers, Inc.*

1926*	4.1	26.0
1927*	3.4	26.0
1928*	1.5	21.9

*Years Ended January 31.

1926	5.6	17.2
1927*	8.1	26.0

* Eleven Months.

16. *Postum Company, Inc.*

1925	4.7	8.1
1926	11.3	10.2
1927	11.4	15.1

17. *Purity Bakeries Corporation.*

1925	1.4	2.7
1926	2.4	3.2
1927	3.1	3.7

18. *Southern Dairies, Inc.*

1925	0.7	0.7
1926	0.8	0.7
1927	0.1	1.0

19. *Union Bag & Paper Corporation.*

1925	0.2	2.6
1926	(d) 0.4	2.6
1927	(d) 0.6	2.7

20. *United States Distributing Corporation.*

1925	1.2	1.9
1926	1.2	2.0
1927	1.0	2.2

NOTE—

This table offers the three years' record of a number of important consolidations in different lines of industry. Many investors have wondered just what have been the results of corporations after their consolidations. This table is intended to cast some light on the situation. It is interesting to note that changes for the most part, as regards earnings and financial position, have not been striking. From this record at least, it cannot be said that on the whole mergers have been productive of astonishing results though it is quite possible that had the component companies not merged, the individual results might have been uninspiring.

By Rail and Air

What Proposed Consolidation of Railroad and Air Service May Mean to Security Holders

By GEORGE DENNING

COMBINED rail and air service is here, and rapidly developing. Probably it is safe to say, even now, that it has come to stay. All that has been accomplished, or that may be accomplished, in the coming years, will have had its origin in the vision of outstanding trail blazers in the aviation and railroad worlds.

How general will this combined service become in the next five years?

Will it greatly increase passenger earnings of the railroads?

By cooperating with the airplane will the railroads be able to make up a considerable part of the big losses they have suffered in the last five years because of the motor bus?

Will cooperation with the airplane bring about a virtual consolidation of East and West and North and South railroad systems, and thus obviate the necessity, to a great extent, of consolidating such systems, as proposed by the Interstate Commerce Commission—an undertaking that has largely failed so far?

These are some of the questions of first importance to railroad security holders that will be dealt with in this article. The millions of such investors should follow closely the development of this movement in the next few years. It will be well to give special attention to the big railroads that tie up with the airplane.

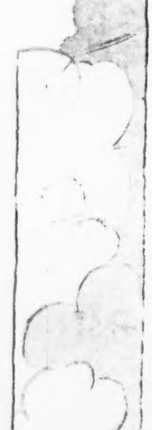
What They Believe and Propose

General W. W. Atterbury, President Pennsylvania Railroad

We feel that the present undertaking will be the forerunner of far reaching developments. The Pennsylvania Railroad has taken this step after careful consideration. Our railroad has become part owner of the Transcontinental Air Transport, Inc., in the belief that the time is ripe for the inauguration of safe and convenient passenger airplane service in this country, in accordance with rail facilities.

W. B. Storey, President Atchison, Topeka & Santa Fe Ry.

The airplane is here to stay and its use will expand. We can see no reason why the railroads should not work in with this new development rather than to lend it no assistance and try by such means to discourage its use.

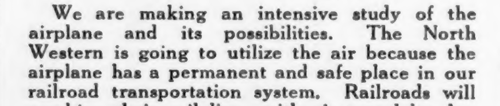


Ralph Budd, President Great Northern Railway

The Great Northern is negotiating with the Transcontinental Air Transport Co. to connect its rail service with airplane service on basis similar to arrangement recently made with Santa Fe Railway.

Fred W. Sargent, President Chicago & North Western Ry.

We are making an intensive study of the airplane and its possibilities. The North Western is going to utilize the air because the airplane has a permanent and safe place in our railroad transportation system. Railroads will combine their rail lines with air travel by day and train travel by night, thus reducing the time of travel by fully 50%.



In this connection, the views of Mr. R. H. Aishton, president of the American Railway Association, are interesting. At its annual convention in Atlantic City he said: "The railroads should associate themselves with these new movements, so as to get the greatest amount of advantage for rail transportation which, after all, is the backbone of transportation in this land. This association of affairs should consist of cooperation and coordination. The railroads should order whatever may be necessary and adopt it if necessary to furnish the public transportation, which it is bound to have—the most effective, fastest and cheapest."

Undoubtedly this railroad executive of many years' experience—before the World War he was president of the Chicago & North Western Railway and during the war a Regional Director—in making these observations, was taking a leaf out of the unfortunate experience of the railroads of the United States in dealing with the motor bus, truck and privately owned automobile. The phenomenal increase in the use of all three methods of transportation has meant the loss to the steam railroads of tens of millions of dollars of passenger, freight and express earnings—largely local in each instance.

It should be noted also that Mr. Aishton, in his address,

spoke in the present tense when he said that "the railroads are not opposing the new forms of transportation." Until recently they did oppose motor transportation in all forms. The keenest railroad executives saw plainly that they were fighting against conditions and tendencies over which they could not hope to have control—if they kept on fighting.

They saw also that the thing to do was to adopt the new forms of transportation, or at least cooperate with them, as far as possible and practicable—to cooperate and coordinate, as Mr. Aishton put it. That railroad authority declared that "the railroads will have facing them, in the next four or five years, more problems than they have had at any time since 1920."

What are these problems? Aviation is one of the biggest. So said, not only Mr. Aishton, but also Clarence M. Young, director of aeronautics of the United States Department of Commerce, in an address, likewise at the recent convention of the American Railway Association.

Here is what he said: "If the railroads do not adjust themselves to air transportation, they will soon have to face the same problems that the motor bus now presents to them. The air craft industry cannot be stopped. Aviation is transportation, just the same as boats are, and the railroads must cooperate or suffer.

"The demand for planes far exceeds the supply. Four thousand planes will be built this year and twice that many could be sold if they were obtainable.

"The accident records of 1927 for planes operated on a fixed schedule show only seven, six of the victims being drivers and one a passenger."

We have had the far-sighted statements of a veteran railway executive and of an equally clear-visioned Government representative as to the big place already attained by aviation as a means of rapid transportation, and as to the necessity of the railroads joining forces with it.

The latest development with respect to combined rail and air service in the United States is a movement that is bound to grow, though slowly for a while, in the judgment of most prominent railway executives with whom I have discussed the matter. Ultimately they believe that it will result in a network of such services country wide in their extent. Under those circumstances it should have a highly important effect on steam railroad earnings.

C. M. Keys, head of the Curtiss Aeroplane & Motor Co. and of the newly established Transcontinental Air Transport, Inc., will work during the coming months with General W. W. Atterbury, civil engineer and president of the Pennsylvania Railroad; W. B. Storey, also engineer, president of the Atchison, Topeka & Santa Fe Railway, and Colonel Charles A. Lindbergh, on the developing of a two-day rail and air service from New York to Los Angeles. Mr. Keys went to California recently in connection with this epoch-making undertaking.

Here briefly is the plan for this service as announced by Mr. Keys before he left for the Pacific Coast. It is to be furnished by the Pennsylvania Railroad in the East and the Transcontinental Air Transport, Inc., and the Atchison in the West. Passengers who want to get to Los Angeles in the quickest way possible may take a Pennsylvania train in New York City at 6:05 in the evening, an airplane at a point near Columbus, Ohio, after breakfast next morning, stop for lunch at St. Louis and continue the flight to Wichita, Kansas, in the afternoon; transfer to the Atchison which will carry them to a convenient point in New Mexico, whence they may fly the next day into Los Angeles, arriving there in the late afternoon. All this will take only two days in contrast with four, as required at present by the fastest railroad connection. There will be no night flying and the day flying will be in sections of the transcontinental route best suited to air transportation.

And there is where Colonel Lindbergh comes into our picture. Before going west Mr. Keys also announced that this ace of the air had "become actively identified with the Transcontinental Air Transport, Inc., as chairman of the Technical Committee." Mr. Keys explained that "all matters concerning choice of equipment, fields, general service, flying routes, safety appliances, etc., will come under the authority of this committee, which will be made up entirely of practical and experienced men."

Probably no one prominently identified with aviation has more practical and hard headed ideas about this new undertaking than Colonel Lindbergh. No one has greater vision. But this wonderful gift is not confined to young men—he is under thirty—or to children. General W. W. Atterbury, sixty-two, Pennsylvania president, has it in a big way. I am able to state for the first time that General Atterbury has had combined rail and air service under consideration for the Pennsylvania for three years. During all that time he has been keenly interested in the project, although for the Pennsylvania it has been in direct charge of Daniel M. Scheaffer, chief of Passenger Transportation.

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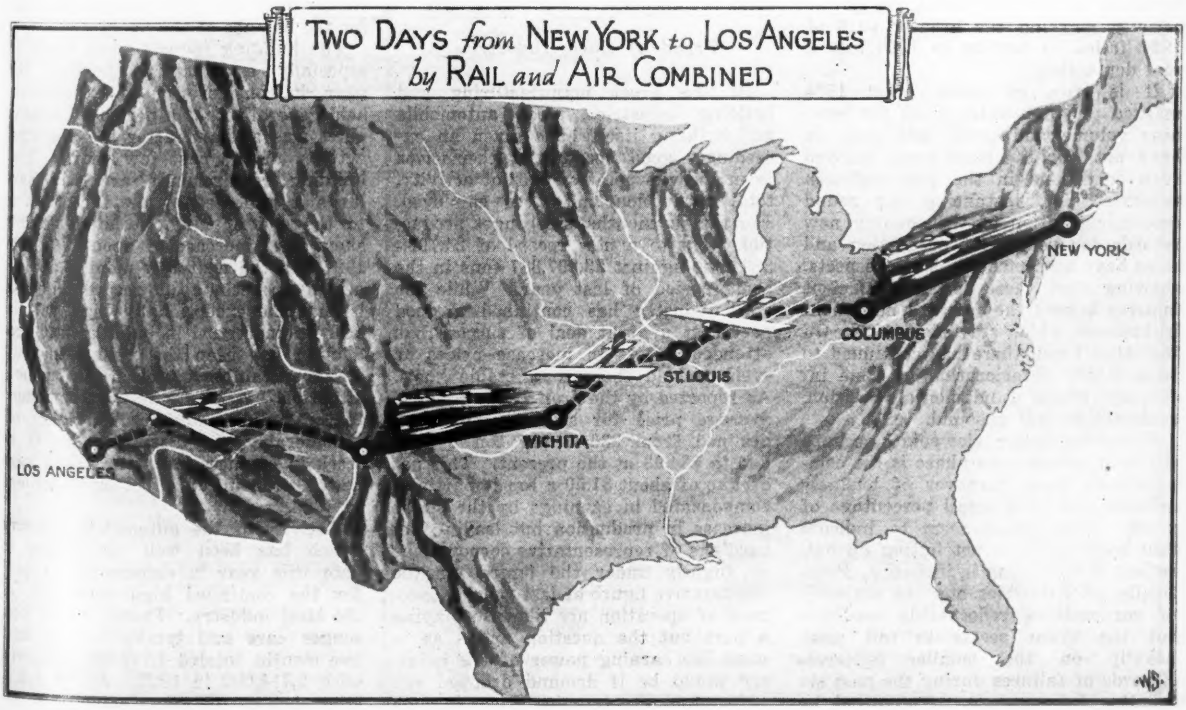
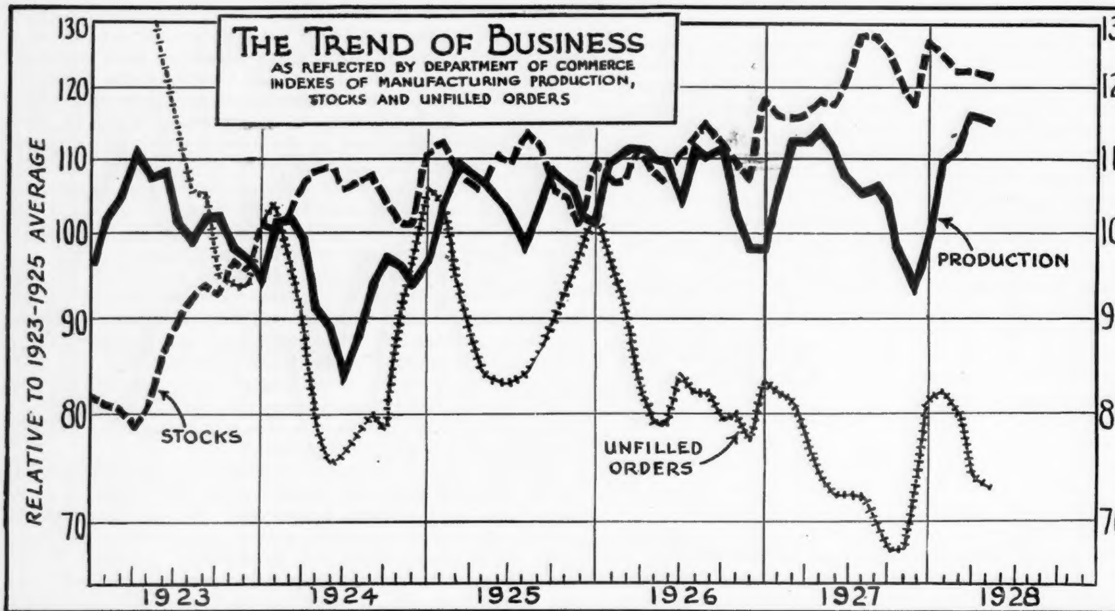


Business Prospects Better

Present Situation Discloses a Relatively Sound Condition with Expectations of Greater Activity for the Second Half of the Year

By A. T. MILLER



WITH the first half of the year ended, it is apparent that it measured up fairly close with expectations of conservative observers. That is to say, there were few if any indications of business of boom proportions; on the other hand, the slower activity marking the greater part of 1927 failed to develop in 1928 into a real depression.

It is true, of course, that 1926 marked the high-water mark for business volume and profit and that we have not, for the most part, enjoyed such conditions in the past eighteen months. Yet, instancing the sound economic position of the country new records for volume of production and sales have been made, in some respects, showing that there is still sufficient impetus behind the forward movement in business which started in 1922. On the other hand, there has continued to be a steady deterioration in some industries whose fundamental position, evidently, is still unsound.

From the larger viewpoint, perhaps the most conspicuous phase is the comparatively large turnover of business accompanied by a small percentage of profit. This would seem to indicate that competition is not letting up but, rather, is increasing in intensity. Practically all industries and the majority of corporations reflect this condition but the brunt seems to fall most heavily on the smaller concerns. Records of failures during the past six months, for example, as reported by *Dun's* shows an increase to 1,947 against 1,833 for the same period of 1927 and 1,708 for 1926. At the same time the average liability per failure was $10,233, the smallest figure since 1919; further proof that the smaller firms are encountering growing odds.

Trend of Basic Industries

Of the great manufacturing and building industries, steel, automobile and building itself have given an exceedingly good account of themselves from the viewpoint of rate of activity, total production and labor employed. For the six months, steel ingot production went to a new record of 24,792,883 tons against 23,807,387 tons in the same period of last year. While the steel industry has continued a good pace, not a great deal of success has attended efforts to increase prices or even to hold them to a stable basis. As reported by the *Iron Trade Review*, average price for steel products has declined from $36.41 per ton a year ago to $34.93 at the present. This net decline of about $1.50 a ton is partially compensated in earnings by the slight increase in production but leaving net earnings of representative corporations at slightly under the figure for the comparative figure of last year. Economies of operation are likewise playing a part but the question arises as to what the earning power of the industry would be if demand dropped say 10%. Inability to raise prices in such an event would bring about a sharp decline in revenue. For the present, however, such a contingency seems unlikely. Unfilled orders are increasing moderately with definite prospect that demand and production will be sustained on a fairly satisfactory basis for the balance of the year.

The building industry has made an especially satisfactory showing this year, in consideration of expectations held generally that a period of relative quiet was at hand after the abnormal activity of the past few years. That building requirements are still very large is indicated by the fact that up to the end of May, building permits showed an increase of about 9% over 1927 and the next few months are expected to continue this record. The fact is that the exceptionally high rate of activity in regard to building and production has been the most important single sustaining factor in the business situation. It may safely be concluded that if building activity had fallen off considerably the disruptive forces at work in business last year might have had a pronounced effect on conditions in 1928.

Activity of the automobile industry which has been well maintained to date this year is responsible in part for the continued high operations of the steel industry. Production of passenger cars and trucks for the first five months totaled 1,797,000 compared with 1,714,000 in 1927. Allied industries such as the manufacturers of ac-

cessories nave been doing well, both as regards volume of production and profits.

Other Industries

The record of these three great industries, however, has not been duplicated thus far this year by other important phases of manufacturing. Thus, the textile industry still remains in a position of gloom as a result of chronic over-stocking and inability to adjust itself to price changes in raw goods. In the meantime, many plants are reduced to absolute or near idleness. Furthermore, labor is dissatisfied with the current lower level of wages and strikes of importance have marred attempts to bring the industry in a more effective position to combat the underlying difficulties.

Railroad car loadings which reflect the general business situation to some extent continue to indicate a slower rate of traffic than in the same period of last year. The per cent of decline, however, is not large and many carriers through complete control of operating expenses have been able to retain a comparatively satisfactory percentage of net earnings. The soft coal roads, probably, have been affected the most severely owing to the sharp falling off in loadings of this commodity. On the other hand, a number of roads in the West, dependent upon farm conditions, are producing good results as to earnings, in some cases increases having been reported.

The petroleum industry still suffers from an excess of stocks but control of production is somewhat more efficient so that a better feeling has been brought about in the industry. Several price increases have been made recently but these are not regarded as representative of the outlook for the bulk of crude petroleum products. Furthermore, conservative interests are opposed to price-raising for fear this will encourage abandonment of recent attempts to hold production down to reasonable figures. The refined industry is benefiting from seasonal increase in demand.

Though among the metal production industries, tin, silver and zinc are not in an especially reassuring position, the outlook for the copper producers has brightened very considerably. Real progress toward adjustment of supply to demand has greatly improved the statistical position of the metal and has been the chief factor in bringing about a better price level. For the first time in years, leading companies are in a position to report really good profits. At present, the situation is somewhat quieter and further price advances are not expected for the moment. However, the genuine improvement in the basic position of the industry is by this time beyond any reasonable doubt.

Except for the very recent decline in the price of wheat, American farmers have had reason to feel more cheerful than in some time. For the greater

(*Please turn to page* 649)

Statistical Record of Business

	Week Ended July 14, '28	Week Ended July 21, '28	Week Ended Year Ago
Volume Stock Exchange Transaction (Shares)	11,282,460	6,970,004	9,850,029
Average Price Magazine of Wall Street Index	124.1	**123.6	107.4
Volume Bond Transactions	$59,250,600	$43,634,300	$47,134,050
Average Price 40 Bonds	91.15-90.34	90.11-89.82	90.97-90.91
Brokers' Loans (Federal Reserve)	†$4,242,699,000	‡$4,194,415,000	$3,058,974,000
Comm'l Loans Federal Reserve Member Banks	$9,038,118,000	$8,924,592,000	$8,599,525,000
Federal Reserve Ratio	67.9	69.5	78.8
Gold Holdings	$2,747,237,000	$2,758,836,000	$3,170,969,000
Rediscount Rate, N. Y.	5%	5%	4%
Debits to Individual Accounts	†$15,427,000,000	‡$15,249,291,000	$13,046,029,000
Call Money	6%	5%	3¾%
Time Money (90 days)	6%	6%	4⅜-½%
Commercial Paper	5%	5%	4-4½%
Acceptances (90 days)	4½-⅜%	4½-⅜%	3⅝-½%
Dun's Business Failures	466	426	414
Weekly Food Index (Bradst's)	$3.39 (June 1)	$3.41 (July 1)	$3.17 (July 1)
Wholesale Prices (Bradst's)	$13.19	$13.14	$12.38

Industrial Barometers

	May	June	Year Ago
U. S. Steel Unfilled Tonnage	3,416,822	3,637,009	3,053,246
Steel Ingot Production	4,203,190	3,742,964	3,468,055
Pig Iron Production	3,283,861	3,082,000	3,089,651
Pig Iron Furnaces in Blast	198	189	198
Automobile Production	426,096	396,714	321,960
Building Permits (Bradstreet's)	$321,702,186	$319,051,880	$311,564,133
Petroleum Production (bbls.)	75,218,000	**71,000,000	74,538,000
Bituminous Coal Production (net tons)	36,624,000	35,963,000	36,627,000
***Copper Production (short tons)**	73,729	72,954	69,540
Cotton Consumption (bales)	577,710	510,565	659,841
Spindles active	29,060,360	28,624,188	32,756,862
Wool Consumption (lbs.)	$43,911,051	....	44,338,043
Railroad Earnings	$88,179,013	....	$86,007,707
% on Railroad Property invested	4.71	....	4.70
Car loadings	4,006,058	4,923,304	4,995,854

Foreign Trade

	May	June	Year Ago
Merchandise Exports	$423,000,000	$390,000,000	$356,947,000
Merchandise Imports	$355,000,000	$317,000,000	$355,148,000
Gold Exports	$83,689,000	$99,932,000	$1,840,000
Gold Imports	$1,968,000	$20,001,000	$14,611,000

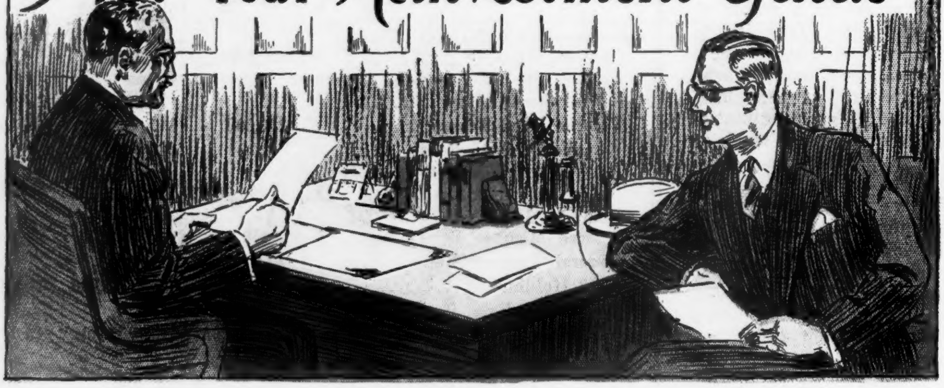
Distributive Trades

	May	June	Year Ago
Mail Order Sales	$40,074,310	$44,848,365	$36,038,573
Chain Store Sales	$102,400,393	$108,262,086	$91,089,001
Dept. Store Sales (index number 1923-5—100%)	107	....	102

* U. S. Mines. † July 10. ‡ July 18. ** Subject to revision.

The MAGAZINE of WALL STREET'S

Mid-Year Reinvestment Guide



THE second half of the year opened by offering as perplexing an investment problem as has materialized in the past few years. Owing to the relatively tight condition and outlook for the money market, the position of the securities markets has become involved in growing uncertainties. This has raised the question as to whether new funds ought to be invested at this time or whether they ought to be invested later at such time as the outcome of the present situation can more readily be defined. By postponing his investments, of course, the investor takes the definite risk of being compelled to enter the market when prices are higher. On the other hand, by investing now he takes the chance of paying more for his securities that if he waited.

If his interest is centered exclusively on stocks, the answer to his problem is available since the uncertainty of the present position of the market indicates the undesirability of making new commitments on a large scale. He may, however, cast about for suitable mediums, make a special note of them, and then when a more favorable market opportunity occurs, he may make his commitments. Or, if among the hundreds of listed stocks there appear to be a few which are not likely to be influenced by market conditions, he may make a partial investment in them at this time, holding the balance of his funds intact with which to take advantage of more favorable market occasions. If he is, however, a pure investor and mainly interested in bonds and preferred stocks, he may gain a little by waiting but there is no reason why he may not consider the purchase of a limited amount of these securities.

The investor, therefore, should decide whether he desires to invest now or later. In any case, we have prepared in the accompanying table a list of sound investments principally among bonds and preferred stocks which are suitable for income and which are considered desirable from a price viewpoint, even under present conditions. This list will be found helpful when the investor decides to reinvest his funds.

Bonds

	Price	Yield to Maturity %	COMMENT
American Cyanamid S. F. Deb. 5s, 1942	93	5.73	Unsecured obligation, but amply protected by provisions of indenture. Earnings in 1927 fiscal year more than four times interest charges. Company manufactures chemical products, principally for fertilizer industry, although operations are being diversified. Consistently successful record. Issue constitutes company's only funded debt except small amount of subsidiary bonds.
Baltimore & Ohio R. R. Conv. 4½s, 1933	98½	4.90	Issue matures March 1, 1933, and is attractive primarily as a relatively short term investment. Available in $500 denominations. Secured equally with road's refunding and general mortgage bonds and entitled to high grade rating. Conversion privilege no longer operative, having expired in February, 1923.
Chesapeake Corporation Conv. Coll. Tr. 5s, 1947	98	5.15	Organized as holding company to acquire 600,000 shares of Chesapeake & Ohio Ry. common stock, which shares are pledged as security for these bonds. Issue is convertible after May 15, 1932, into said stock at $220. Indenture contains provisions protecting conversion privilege in event of change in C. & O.'s common share capitalization. Redeemable at 100.
Chi., Rock Island & Pacific 1st & Ref. 4s, 1934	94	5.27	A comparatively short term investment affording attractive return. Protected by ample and, in late years, steadily increasing margin of earnings over interest charges. Non-callable issue, secured by direct or collateral liens on 4,534 miles of road and 1,025 miles of leaseholds, terminals and the like. Preceded by 73 millions of prior liens.
Chile Copper Company Deb. 5s, 1947	95	5.44	Direct obligation of one of lowest cost copper producing companies. Though not secured by mortgage, issue is obviously high grade in view of corporation's ability to earn interest requirements several times over under all conditions. Such requirements were covered 5.69 times last year. No prior obligations. Callable at 102.
Cuba Railroad Co. Imp. & Equip. 5s, 1960	89	5.73	Attractive as medium grade investment. Secured by second mortgage on properties of company operating Cuban railroad system. Preceded by 14.4 millions first mortgage 5s of 1952. Earnings have averaged approximately 3.5 times interest charges over past five years. Non-callable.
Goodyear Tire & Rubber 1st & Coll. Tr. 5s, 1957	91	5.64	First mortgage issue of one of leading rubber goods and tire manufacturers. Well protected by equities and an average earning power amply in excess of interest charges. Somewhat subject to price variations owing to irregularity of tire company earnings, but now selling at attractive level.
Gulf States Steel S. F. Deb. 5½s, 1942	98	5.67	Issued last year to provide funds for improvement program which has already proved productive of marked betterment in company's earning power. Issue constitutes company's only funded debt and, while not secured by mortgage, is amply protected by substantial assets and good average profit making capacity.
International Paper Co. Ref. 6s, 1955	103	5.75	Leading paper manufacturer with large possibilities in development of public utility interests through ownership of valuable water power sites. Issue is secured by mortgage, subject to 1st and refunding mortgage 5s. Attractive bond, selling two points under call price.
Loew's Incorporated S. F. Deb. 6s, without war., 1941	100	6.00	Obligation of strong, aggressive motion picture and vaudeville enterprise. Parent company's sole funded debt, but subject to certain bonds and mortgages of subsidiaries. Guaranteed, principal, interest and sinking fund, by M-G-M Company, Inc., and/or Metro Goldwyn Pictures Corp. Gradual enhancement in earnings renders issue attractive for yield.
Lake Shore & Mich. Southern Deb. 4s, 1931	98	4.65	Desirable as high grade issue for investment of funds over short term. Direct obligation of important part of New York Central Railroad system. Bonds assumed by latter company and, though preceded by 50.4 millions prior obligations, obviously occupy strong position. Non-callable.
McCrory Stores Corp. Deb. 5½s, 1941	100	5.50	Subject to certain underlying mortgages, these debentures comprise only funded debt of one of four largest and most successful "five and ten cent" store chains. Earnings last year more than 5½ times interest charges, indicating high margin of safety and sound investment status of debentures which appear out of line on present yield basis.
Midvale Steel & Ordnance Conv. S. F. 5s, 1936	99	5.05	Assumed by Beth-Mary Steel Corp. and guaranteed principal and interest by Bethlehem Steel Corp. following merger of Midvale into Bethlehem in March, 1923. Convertible into Bethlehem common stock at 200, conversion privilege has only remote possibility of becoming valuable but bonds are desirable as medium term holding.
National Dairy Products Deb. 5¼s, 1948	97	5.42	Senior obligation of strong company operating in essential industry. Issued early in current year to refund an outstanding issue of 6% bonds and retire the funded debt and preferred stocks of subsidiaries. These bonds thus are the sole funded debt of the corporation and its subsidiary companies.
Phillips Petroleum Co. S. F. Deb. 5¼s, 1939	92	6.25	Unsecured obligation of strong mid-continent crude oil and gasoline producer. Earnings, though adversely affected by depressed prices for petroleum products, show profits well in excess of interest requirements on this issue, being 4.15 times charges last year. Not high grade, but attractive for yield and possible market price appreciation in time.

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Bonds [Continued]

	Price	Yield to Maturity %	COMMENT
Pillsbury Flour Mills Co. 1st 20-Yr. 6s, 1943	105	5.47	First mortgage on real estate, buildings, equipment and other assets of operating company for Pillsbury Flour Mills, Inc., one of country's leading flour milling enterprises. Additionally secured by pledge of capital stocks of constituent companies. A well protected bond, attractive solely for income, price enhancement being limited by call price at 105.
Remington Rand, Inc. 20-Yr. Deb. 5½s, 1947	94	6.00	Direct obligation of consolidation formed around important business machine companies. No prior liens. Stock purchase warrants attached to bonds entitle holder to purchase common stock, prior to May 1, 1937, on sliding scale, beginning at 55 a share. Not high grade but desirable issue with some long range speculative possibilities.
St. Louis Southwestern Ry. 1st Cons. 4s, 1932	96	5.12	A sound, well secured rail bond affording good yield and desirable for inclusion in list of holdings where relatively short term issue is required. Non-callable. Preceded only by 23 millions of prior obligations. Direct mortgage on 622 miles and collateral lien on 753 miles of road.
Sinclair Pipe Line Co. 20-Yr. S. F. 5s, 1942	94	5.62	Company is jointly controlled by Sinclair Oil Corp. and Standard Oil of Indiana. Issue is a direct obligation, not secured by mortgage, but bonds are entitled to good investment rating in view of substantial earning power. Seem undervalued at prevailing levels. Callable at 103.
Vicksburg, Shreveport & Pacific Ref. & Imp. 6s, 1973	105	5.69	High grade bond, attractive for yield, price enhancement possibilities limited by close proximity to redemption figure. A third mortgage on 188 miles of road, leased to Yazoo & Mississippi Valley R. R. performance of which lease is guaranteed by Illinois Central.

Preferred Stocks

	Price	Yield %	COMMENT
American Ice 6%	97	6.19	Manufactures and distributes ice at wholesale and retail in principal cities in North Atlantic and New England states. Earnings, though somewhat variable, show consistently wide margin over preferred div. requirements. Seems unaffected by competition of mechanical refrigeration. Earnings improved by increased operating efficiency.
Amer. Sugar Refining 7%	107	6.54	Non-callable issue available on comparatively attractive yield basis owing to irregularity of sugar refinery earnings in late years. Situation showing some improvement. Shares amply protected by company's exceptionally strong working capital position and ability to earn preferred div. comfortably even under adverse conditions.
Central Alloy Steel 7%	110	6.36	Successful consolidation of former Central Steel Co. and United Alloy Steel. Well integrated organization specializing in high grade and alloy steel production. Well established trade position reflected in ability to show good earnings under competitive conditions. Attractive investment if purchased under call price at 110.
Chic., Rock Is. & Pac. 6%	102	5.88	Junior preferred issue of northwestern carrier whose position has measurably improved in very recent years. Steady enhancement in earning power places issue on sound investment footing. Dividends cumulative up to 5%. Relatively more attractive than senior 7% issue since latter is selling above call price.
Continental Can 7%	124	5.65	Second leading manufacturer of tin containers. Business constantly expanding. In excellent financial position. No funded debt ahead of preferred stock on which dividends have been paid without a break since company was organized in 1913. Attractive medium-high grade investment. Redeemable at 125.
Gimbel Brothers, Inc., 7%	100	7.00	One of country's leading department store chains, operating six units in New York, Philadelphia, Milwaukee and Pittsburgh. Expansion program has prevented satisfactory net profits showing in past few years and shares, accordingly, are semi-speculative. Indications that company has turned corner, however, places issue in better position though still speculative.
Gulf States Steel 7%	108	6.48	Compact, southern steel producer with good average record. Improvement program adopted last year apparently already bearing fruit as indicated by betterment in this year's earnings. Preferred dividends paid without interruption since 1916. Redeemable at 110.
Inter Combustion Engine 7%	103	6.80	Company holds position of leadership in business of manufacturing labor eliminating machines and installations for power plant use. Activities international in scope. Earning power not yet fully developed, but sufficient to show wide margin over div. requirements on comparatively small issue of preferred stock brought out late last year. Convertible into common, share for share.
Missouri-Kansas-Texas 7%	104	6.74	One of roads prominently identified with proposed merger of southwestern carriers. Improvement in physical and financial condition and betterment in earning power since 1920 permitted placing preferred on full 7% div. basis this year. Not high grade, but attractive issue of "business man's" type.

Preferred Stocks [*Continued*]

	Price	Div.	Yield	COMMENT
N. Y., Chicago & St. Louis 6%	108		5.55	Attractive investment rail, selling somewhat out of line with preferred stocks of like calibre. Road has shown marked growth in net income over last few years, and in 1927 earned preferred dividend requirements more than three times over. Shares are callable at 110.
N. Y., New Haven & Hart. 7%	113		6.20	Issued last year to permit reduction of company's debt to Government. Improvement in road's financial condition and earning power during recent years entitles issue to good rating. Redeemable at 115 and convertible into common share for share. Conversion privilege has only remote possibilities.
Remington Rand, Inc., 1st 7%	95		7.37	Comparatively recent consolidation of business machine companies, including Remington Typewriter and Rand Kardex Bureau. Company has some distance to go before earning power of amalgamated units will be fully developed, but preferred stock appears attractive as commitment for those seeking comparatively high yield. Redeemable at 100.
St. Louis Southwestern 5%	90		5.56	Rapid development of southwestern territory has been reflected in increased traffic density and fairly consistent earnings since passing of period of Federal Control. Sound issue, backed by high equity and ample margin of earnings over dividend needs.
Tide Water Associated Oil 6%	86		7.06	Organized to consolidate activities of Tide Water Oil Co. and Associated Oil, both companies being engaged in all phases of oil business, operating extensive properties on Pacific Coast and in Mid-continent fields. Redeemable at 105 and convertible into common stock in ratio of two for one.
U. S. Smelting, Ref., & Min. 7%	54		6.48	Attractive as medium-grade investment. Company's earnings subject to variation with lead, zinc, copper and silver metal markets, but average well in excess of preferred div. needs. Improvement in silver prices an important factor owing to corporation's large production of latter metal.

Guaranteed Stocks

	Price	Div.	Yield	COMMENT
Morris & Essex	86	3.87	4.50	Leased in perpetuity to Delaware, Lackawanna & Western. Properties comprise 119 miles of road between Phillipsburg and Hoboken, N. J., and D., L. & W.'s valuable passenger and freight terminals at latter point and Jersey City.
Pittsburgh, Bessemer & Lake Erie, Common	33	1.5	4.55	Leased for 999 years from April 1, 1901, to Bessemer & Lake Erie R. R. and guaranteed by Carnegie Steel Company, principal subsidiary of U. S. Steel Corp. Forms connection between Union R. R. at Pittsburgh and harbors on Lake Erie.
United New Jersey R.R. & Canal	222	10	4.47	Leased to and guaranteed by Pennsylvania R. R., forming latter's main line from Trenton, N. J., to Jersey City. Also owns one-half capital stock of Philadelphia & Trenton R. R., main line of Pennsylvania system to Philadelphia.

Common Stocks

	Price	Div.	Yield	COMMENT
Amer. Tobacco B	158	8	5.06	Leading manufacturer of all classes of tobacco products. Steady upward trend of earnings, however, largely due to consistent increase in consumption of cigarettes. Recent price cuts in latter field have failed to affect profits adversely and company continues to show expansion in net income. Attractive for long term investment in view of recession in market price of shares from 1928 high.
Chic., Rock Is. & Pac.	114	6	5.76	Increasing gross revenue, along with improvement in operating efficiency under present management has brought this northwestern road to position where good earning power is now shown. Div. increased from $5 to $6 last March. Further gains in traffic suggest possibility of $7 rate in due course.
Kennecott Copper	92	5	5.44	One of principal copper producers in strong trade and financial position. Industry's more reasonable attitude on production has resulted in stabilizing metal market at higher average price level than last year, thus paving way for better earnings. Dividend increase to $6 rate seems imminent.
Standard Oil of California	58	2.5	4.31	Largest crude oil producer and one of leading refiners. Engaged in all branches of oil industry. Position materially strengthened by merger with Pacific Oil in 1926. Stands to benefit from existing disparity between crude and refined oil markets. Stock a sound investment, relatively behind its group.

RAILROADS

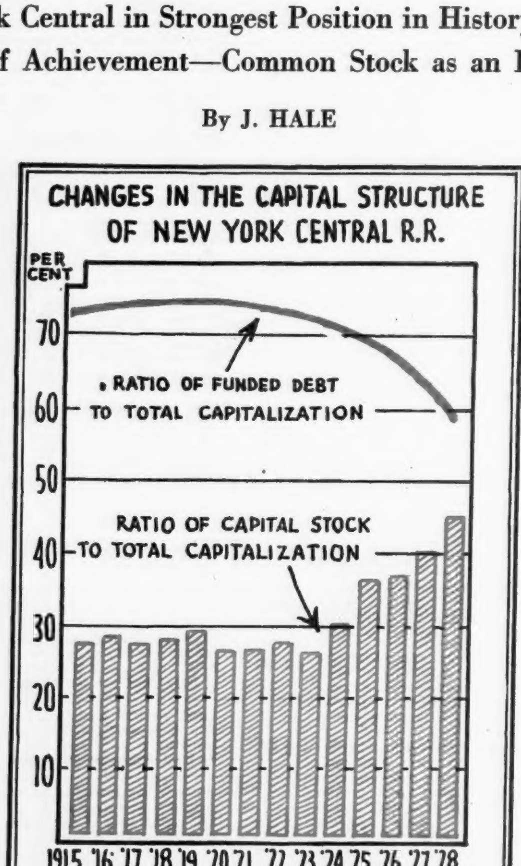
Ramifications of a Giant System

New York Central in Strongest Position in History—A Fine Record of Achievement—Common Stock as an Investment

By J. HALE

GREATLY improved credit, more completely unified operations and rapidly growing equities back of the common stock mark the progress of the New York Central Railroad Company since 1914. Substantial enhancement of its vast security and real estate holdings has also been witnessed during this period. Along financial lines, the recent sale of 42 million dollars of additional stock for the purpose of taking care of Lake Shore & Michigan Southern 4% bonds, which mature September 1st, would seem to indicate that the management is undoubtedly committed to a policy of correcting the present capital structure.

A conservative dividend policy in the past, enabling the return of surplus earnings to the property, largely accounts for the growing equities back of the shares. It appears that the time is at hand when the stockholders may continue to look forward to more liberal treatment, especially, in the form of rights to subscribe to new stock at attractive levels.



A glance at the map shows the highly developed portion of the country through which the road's lines run. At the close of 1927, the company operated 6,906 miles of road.

In 1927, 111.7 million tons of revenue freight were transported as against 117.7 million tons in 1926. This decrease was due to the lower rate of industrial activity in the territory served by the lines of the New York Central System. The record-breaking tonnage of 1923 when 132.5 million tons were carried, has not been duplicated, but since 1924, the tendency has been upward.

Irrespective of the period under consideration, the long term trend of New York Central's traffic shows a steady growth. The record tonnage of 1923 was due to a large volume of bituminous coal traffic. In that year dealers and industrial plants located along the lines of the company, accumulated an abnormally large supply far in advance of the usual seasonal requirements. Other traffic was also heavy, owing to the unusual degree of industrial activity. The nature of the territory served by New York Central is reflected in the character of its traffic. Agricultural products accounted for 6.6% of the total revenue tonnage carried in 1927. Products of forests and animal products comprised 3.28% and 2.29% respectively. The largest group, products of mines, amounted to 57.5% followed by manufactures. The latter totaled 26.9% in 1927 as against 24.3% in 1923, indicating a rising tendency in the volume of high grade freight transported. The largest individual item, bituminous coal, constituted 36.7% of the total revenue freight transported and amounted to 40.9 million tons as against 49.8 million tons in 1923. The volume of bituminous tonnage carried in 1923 has not been since equalled.

The revenues of New York Central are subject to wide fluctuations which merit careful analysis, especially for the period 1923-1927. At the beginning of the period under consideration, gross revenues were $421,000,000. In 1924, the latter declined to 369.6 millions for reasons already mentioned. Since then there has been some improvement, barring the results of 1927. It is of peculiar interest, however, to observe that the passenger revenues reflect a slight increase since 1923, whereas, the general trend of passenger revenues of most railroads throughout the country in the past five years has been downward without interruption. During 1924-1927, this item rose 3.1 million dollars in the face of a decrease of 2.4% in passenger mileage and 1.92% in revenue per passenger mile. This showing was due to the large increase in the number of commutation passengers, the latter rising from 42.5 to 47.5 millons, a gain of 11.8%. This is an interesting record.

Operating Efficiency

Freight revenues of 273.6 millions in 1923 declined to 227.3 millions in 1924 notwithstanding an increase in rates. Offsetting the advantages of the latter, was a decrease of 5.3 billion ton miles. Since 1924, the revenue derived from each ton of freight transported one mile, has decreased from 1.077c. to 1.051c. Revenue ton mileage increased from 21 to 22.3 billions or 6.2%, offsetting this decrease of 2.4% in freight revenue. Revenues from freight in 1927 were 234.3 million dollars. The loss of 37.7 million dollars in gross revenues during this period was accompanied by a loss of but 9.3 million dollars in net railway operating income. This showing can be attributed either to a reduction in maintenance charges or increased operating efficiency. It is true that the operating ratio declined from 77.41 to 76.3%, but the foregoing requires careful analysis, since it is insufficient and does not explain the changes in detail. It is also subject to considerable fluctuations. The latter is due to the fact that several of the components of the operating ratio be controlled.

Expenditures on maintenance of way have increased disportionately since 1923. Although traffic density decreased from 4.26 to 3.68 million tons per mile of road or 3.6%, maintenance increased from $7,340 to $7,850 or

6.9%, per mile of road. Further confirmation of the view that expenditures on maintenance of way and structures are ample, is reflected in both decreased train and locomotive mileage. Maintenance of equipment, however, in years subsequent to 1923 fell considerably below the heavy expenditures of that year when $107,465,790 was reported. The annual average for the period 1924-1927 was approximately $25,000,000 below that reported in 1923, when extraordinarily large repairs were made on the company's locomotives and almost 13,000 freight cars were retired. Freight car repairs were also abnormally heavy in that year. The equipment at the beginning of the period had not yet been brought up to a satisfactory condition, following the restoration of the property to private control, thereby necessitating such charges. Since 1923, the company's bad order freight cars have been steadily reduced and as of December 31, 1927, amounted to 3.9% as against 7.8% in 1923 and permissible standards of 5%. Repairs per locomotive show a tendency to increase annually and although unserviceable locomotives at the close of 1927 totaled 21% as against permissable standards of 15%, New York Central has ample capacity as is reflected in the steadily increasing average tractive power per locomotive.

The decrease of 37.7 million dollars in gross revenues was accompanied by a reduction of 28.8 million dollars in operating expenses. The greatest part of the decrease in the latter item was absorbed by transportation expenses, which declined 14.4 million dollars. The latter would have reflected a greater decrease were it not for increased wages which absorbed an additional $3,700,000 in 1927. Inasmuch as transportation expenses is the best index of the operating ability of the management, attention is drawn to the accompanying table.

Freight revenues are dependent on the amount of ton mileage, and the expense of transporting the latter is reflected in the amount of freight train mileage. The ability to increase the train load, with simultaneous increase in speed per train hour, results in an increase in ton miles per train hour. The greater this increase, the smaller will be the expense of transporting this increase in ton mileage. Any reduction in the latter should be accompanied by a correspondingly larger decrease in freight train mileage. Analysis of the foregoing data reflects how well the management of New York Central has kept expenses down.

The decrease of 15.3% in ton mileage was accompanied by a decrease of 19.5% in freight train mileage. The average train load increased from 960 to 1,007 net tons, a gain of 5% as against practically no increase in the average train load in the Great Lakes Region, in which the New York Central is grouped. Speed per train hour increased from 10.4 to 12.3 miles per hour, or 18.3%. Gross ton miles per freight train hour rose from 21,896 to 28,777, an increase of 31.6%. New York Central's showing in this respect seems to be quite satisfactory in comparison with other trunk line systems. In 1927 the Pennsylvania Railroad and the Baltimore & Ohio reported 22,532 and 20,768 gross ton miles per freight train hour respectively.

Taxes vs. Cash Dividends

Due to the large number of foreign cars on the lines of the New York Central System, equipment rentals show an increase of $1,348,712. Taxes continue to increase and only since 1925 did cash dividends exceed this item. Non-operating income reflects a steady increase, rising from 24.6 to 42.6 million dollars. The item "Dividend Income" which is included in non-operating income, shows a very rapid increase. In 1923, there was received from this source $14,911,849 and by 1927 this had increased to $31,260,560. It is important to observe that the latter item in 1927 exceeded the total non-operating income reported in 1923, as a result of the large cash payments received from the Michigan Central, one of its prosperous subsidiaries. It is for the foregoing reason that the total gross income of New York Central exceeds that reported in 1923, when 98.5 million dollars was disclosed. Last year this item amounted to 104.4 million dollars. Thus, the loss of 9.27 million dollars of net railway operating income was offset by an increase of approximately $18,000,000 in non-operating income. Interest charges in 1927 were 29.3 million dollars as compared with 33.88 millions in 1923, due to the reduction of the 6% debentures. The increase in net income from 35.43 millions at the beginning of the period under consideration to 58.6 million dollars last year, undoubtedly explains the company's liberal dividend policy. Notwithstanding the larger distribution, substantial earnings were returned to surplus. Between 1923 and 1927 a total of 124.5 million dollars was returned to the property. Based on the amount of stock outstanding as of December 31, 1927, the latter amount was equivalent to approximately $30.00 per share.

In the past five years total investments increased approximately $258,000,000. Almost one-half of this amount was due to surplus earnings and if accrued depreciation reserves were taken into consideration, a larger

Table I.—Operating Statistics

Item	1927	1923	Change	Per cent
Ton mileage (000 omitted)	22,300,002	26,321,574	4,021,572	15.3*
Freight train mileage	25,333,996	32,279,079	5,945,083	19.5*
Net train load-tons	1,007	960	4.7	5.0
Gross train load-tons	2,344	2,111	233	11.1
Speed, miles per train hour	12.3	10.4	1.9	18.3
Gross ton miles per train hour	28,777	21,896	6,881	31.4
Fuel consumption, lbs. per 1,000 gross ton miles	111	134	23	17.2*
No. of cars per train	62.8	51.7	11.1	21.4

(* Decrease.)

proportion of these expenditures would have been due solely to the return of earnings to the property. The largest increase, "Additions and Betterments to Road and Equipment," totaled $173,340,739. Many new locomotives of greater tractive power and freight cars of larger capacity were acquired. Substantial sums were expended for strengthening bridges, in order to permit the movement of heavier trainloads. The company has continued the installation of automatic signals and interlocking facilities, and to take care of its increased traffic at various locations, terminal facilities have been expanded. In connection with the latter, one of the important developments was completed at Selkirk, New York. Approximately $25,000,000 was expended on the construction of the Castleton Cut-off, which was completed in 1924.

The last two improvements are well justified, for they relieve congestion at the Albany gateway, and facilitate the movement of freight to and from points in New England and New Jersey.

It is true that capital stock increased $153,000,000 since the beginning of 1923, but of this amount, $87,853,000 resulted from the conversion of the 6% debenture bonds. The balance amounting to $65,000,000 was applied towards improvements. Investments in miscellaneous physical property stood at $19,637,551, an increase of $6,167,890 since December 31, 1922. Included therein were company's real estate holdings in New York City, Cleveland and Buffalo. No detailed earnings are available, but the income account disclosed miscellaneous rent income equal to $3,913,012 as against $978,209 in 1923. The company's program of developing its air rights in New York City has not yet been completed and it is estimated that a still further increase in rentals from this source will be witnessed. Furthermore, the company is to develop its air rights extensively in Cleveland, together with the improvement of its real estate holdings in the city of Buffalo, all of which should find reflection in still greater income from this source ultimately. Considering the present return afforded and the stated value of the real estate holdings, it would appear that the latter are valued conservatively. It is doubtful, if the average investor has any conception of the underlying value of many of New York Central's properties. Thus, prior to its absorption in 1914, the Lake Shore & Michigan Southern Railway Company returned substantial sums to the property which were never capitalized. In fact this road became known for such practices. A single example during the years 1906-1907, should bear this out. During that period there was an increase of approximately $17,000,000 in assets, and a reduction of $35,000,000 in funded debt, yet surplus earnings and current liabilities increased negligibly. The latter two items were the only ones available that could partially account for so huge an increase that was applicable to the equities back of the Lake Shore and Michigan Southern common stock.

Investments

The greatest element of value entering into the affairs of the New York Central Railroad is its vast treasury assets and it is of considerable interest to observe that its valuable stockholdings are free assets. Lack of space precludes the listing in detail those issues to which can be assigned definite market values. The ledger value of the stocks in affiliated companies as of December 31, 1927, was $157,634,846 and other stock investments amounted to $42,658,997 or a total of approximately $200,000,000. Included therein were such holdings as Michigan Central, Pittsburgh & Lake Erie and the Reading issues. Other important stocks held were those of the New York & Harlem Railroad and the Cleveland, Cincinnati & St. Louis, common and preferred shares, and the Mohawk Valley stock. Excluding other valuable holdings, the foregoing were appraised at $500,000,000 as of December 31, last. Thus, these values could be revised upward to the extent of $300,000,000. Such stocks as Michigan Central were appraised at about $1,000 per share, a figure well supported by the present market bids for the stock. If the rent income were capitalized at 6%, a value of $65,000,000 would be obtained for its "Miscellaneous Physical Property" under which the real estate holdings are included. The latter could be revised upward approximately $45,000,000, which together with the stockholdings will add $345,000,000 or the equivalent of $80.00 per share to the value of the common stock. The book value of $152.00 per share at the end of 1927 could be revised upward to a figure approximating $240.00. It is doubtful whether the latter would reflect the true equity values back of the Central shares.

Recently, considerable activity developed in the shares of the New York & Harlem Railroad, especially, the common stock which advanced from a low price this year of $168.00 to a high of $465.00 per share. This advance was predicated on the theory that the lease which was executed in 1873 was invalid. Contention has been made by the minority committee which has existed for many years, that the lease of the property was solely for transportation purposes only, and that the courts will require the lessee to account to the lessor for income from other uses of the property. Office buildings, hotels and apartment houses have been erected over a considerable portion of the ground which the Harlem holds in fee. Whether the minority committee could be sustained in court is a matter of conjecture at this time.

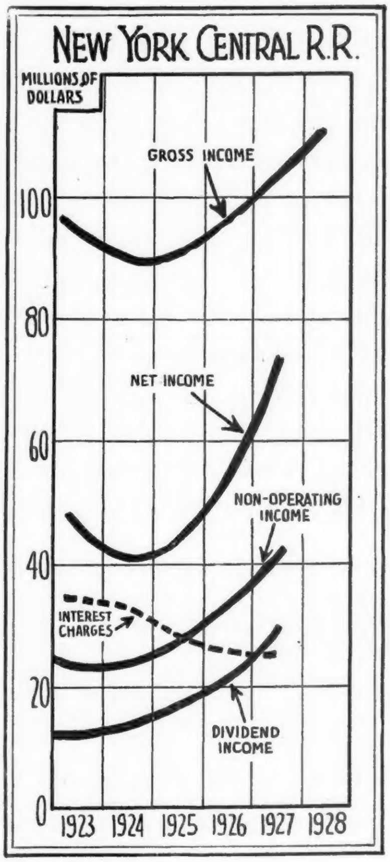
New York Central's financial condition at the close of the last fiscal year reflected a decrease in net working capital, due no doubt to the financing of a portion of its capital expenditures out of treasury assets. Current assets including cash of $20,631,857, totaled $78,173,597. Current liabilities were $64,579,917 and net working capital of $13,593,608 reflected a reduction of $4,809,444 since the beginning of 1923. At the beginning of that year, net working capital totaled $18,403,124. Some improvement in this item should be witnessed during the year, as the company recently disposed of its Mohawk & New York State Railways holdings from which approximately $40,000,000 in cash will be realized. Part of this no doubt will be applied towards the redemption of the Lake Shore bonds. The disposition of these assets did not entail any great sacrifice on the part of New York Central. The investment in the New York State

Railways was purchased many years ago when it was highly competitive. Included therein, were the Mohawk Valley properties. The latter were segregated in 1905. At the time the foregoing properties were acquired, the power company was regarded as the less valuable unit. The loss sustained from the investment in the New York Railways, however, was greatly offset by the profit accruing from the sale of the Mohawk Valley shares.

The capital structure has undergone a decided improvement, due to the better balance now existing between stock and funded debt. The latter, including $69,080,938 of equipment trust obligations was outstanding in amount of $684,629,138 and comprised 61.9% of the total capitalization against 74.2% only as far back as 1923. Mortgage debt totaling $579,951,000 at the close of 1927 was outstanding at the rate of $86,500 per mile of road. While the foregoing figure appears rather high, close analysis discloses that it is conservative in relation to gross revenues per mile of road. One of the features of the bonded debt is the low rate of interest on the entire amount, which at the close of last year was outstanding at the annual rate of 4.3%. New York Central is comfortably situated with regard to maturing obligations. Until 1935, $135,000,000 including $21,094,000 of equipment obligations mature. Over one-third of the outstanding funded debt bearing interest at 3½% does not fall due for at least seventy years.

The most important obligation, the refunding and improvement mortgage, is practically an open end lien. It is authorized to the extent of three times the capital stock, but after five hundred million dollars in refunding and improvement mortgage bonds are issued, no more bonds can be sold, except for refunding purposes, and then only for not more than 80% of the property. While this issue is now the company's medium of bond financing, it is doubtful whether it will be used to any great extent, in view of the fact that the management seems committed to the policy of selling stock for both refunding and new capital requirements. In this event, it appears that a still further reduction in the proportion of funded debt will be witnessed. It is also conceivable that the amount of stock outstanding will exceed bonded debt within the next decade.

Capital stock which was outstanding to the extent of $421,385,435 at the close of 1927, increased 38 millions since 1926 and approximately 153 millions since the end of 1923. Dividends have been paid without interruption since 1870, a record equalled by but few transportation systems of the magnitude of New York Central. From 1900 to 1923, the regular rate averaged 5% annually and from then to 1927, 7%. Late last year, the dividend was increased to 8%. While no increase is anticipated at present, an annual dividend rate of $10.00 per share could be supported. Earnings in the past five years averaged approximately $14.00 per share annually and were the undistributed earnings of its subsidiaries



taken into consideration, an annual average of $4.80 in addition is applicable per share of stock. In 1927, New York Central earned $13.90 per share from its own operations and the equivalent of $3.60 of undistributed earnings of its principal subsidiaries was applicable to the stock.

Barring certain factors entering into the affairs of the New York Central System, its earning power and the value of its physical properties, should continue to grow steadily. Among the uncertainties that have been a retarding influence are the merger question and that of valuations. Their disposition will hardly come at an early date. From an investment standpoint, New York Central represents a sound situation, judged solely from the standpoint of its own merits. From a merger standpoint, it is only a matter of time when its various subsidiaries will be consolidated. It now holds practically all or substantial amounts of their outstanding stock. To appreciate the progress and present position of the property, a brief review since 1905 should impress one, as to its underlying strength. In that year, the common stock attained a high price of $175.00 per share, a figure which it exceeded only recently. At that time it paid 5% in dividends annually as against 8% at present. Its investment holdings were not as valuable and equities back of the stock were comparatively small. In 1913, New York Central's credit was such that an issue of its bonds could only be sold abroad. In 1915, its offer to sell stock to finance a vast improvement program, including the development of its terminals and real estate in New York was withdrawn. Instead, it resorted to the sale of $100,000,000 of 6% debenture bonds. The strong credit position of the system is now apparent in its ability to sell stock. Aside from the fact that its vast holdings have appreciated, its income therefrom has also risen considerably. *Considering the liberal dividend policy and the valuable rights to subscribe to its stock in recent years, with the fair possibility of the continuation of such a policy, it seems that the stock constitutes a sound investment. The present state of the market is uncertain, however, and this must be borne in mind in considering stocks for purchase.*

Table II.—Revenue Statistics

Year	Total Revenues from Operations	Net Railway Operating Income	Total Non-operating Income	Interest on Funded Debt	Gross Income	Net Income	Dividends Declared	Earned Per Share*
1923........	$421,034,783	$71,199,384	$24,668,309	$33,881,249	$95,867,693	$45,339,426	$17,432,978	$16.91
1924.........	369,606,930	64,798,086	24,123,216	34,191,311	88,921,303	39,250,399	20,728,835	13.25
1925.........	385,994,504	68,010,924	25,419,095	28,684,284	93,430,020	48,627,223	26,732,833	12.69
1926.........	399,537,748	72,180,767	29,076,690	29,268,397	101,257,457	55,664,040	26,827,814	14.52
1927.........	383,377,311	61,868,872	42,608,679	29,292,539	104,477,551	58,565,145	30,462,783	13.90

(* Based on the amount of stock outstanding at the close of the year.)

Record Volume of Real Estate Financing Reflects Sound Status of Mortgage Investments

By ARTHUR M. LEINBACH

FOLLOWING the widely heralded financial reverses of some real estate financing concerns during the past year or so, real estate mortgage bonds have been thought by some investors to occupy a rather uncertain position. An investigation of this field, recently made by the author of this article, disclosed a number of important transitions that should be interesting to holders or prospective purchasers of real estate mortgage issues. The facts presented here give the reader the benefit of these findings.

THOSE who have been in touch with the investment market in only a casual way will probably be surprised to learn that real estate financing established a new record for all time during the first five months of 1928 when almost four hundred million dollars' worth of securities were sold in public offerings. This volume is larger than the full year's total for 1924 and at a higher annual rate than 1925—the "big year" in the real estate bond business.

Furthermore, in 1925, real estate securities were probably the most widely advertised group of investments, as far as publicity and sales effort was concerned. Today, new records are being broken, although real estate financing assumes a far less conspicuous role to the casual observer. These changes in recent years within this important investment field supply the theme for this discussion.

Real estate financing, notwithstanding its comparatively recent rise to public attention, is probably the oldest form of investment known to civilized man. The earliest documents that protected lenders against loss by pledging real property as security are found in the stone tablets of the early Egyptians. Through the subsequent Greek and Roman civilizations, the practice of securing loans by pledging real property continued. During the Middle Ages, real estate mortgages and the public debts of kings and princes constituted virtually the only mediums of investment for surplus wealth. Even at this time the former were protected by an elaborate code of law, whereas the latter were all too frequently subject to the repudiation of their makers.

A Time Tested Investment

This long history—virtually the history of civilization itself—is the background for the present day real estate mortgage investment. The simple real estate mortgage, without frills or fancies, representing a pledge of real property to secure payment of a loan substantially less than the value of the property, has been subjected to the acid test of time, therefore, and bears a stamp of universal approval that no innovation can ever erase. A good real estate mortgage still ranks among the safest forms of investment obtainable, irrespective of trends, changes, valuations and revaluations in the general field of investments.

The most modern specie of real estate security is the so-called "amortized real estate construction bond." As far as its wide distribution in this country is concerned, it is essentially a product of the past decade or so and attained the height of its popularity with the investing public during 1925 and 1926. Within the past year and a half, it has declined both in the volume of successful offerings and in the suspicious place that it occupied formerly in the market place and on dealer's shelves.

So much has been written about the amortized real estate construction bond by its sponsors, critics and independent observers that at this late date a detailed description may seem unnecessary. Still, few descriptions have covered the subject adequately enough to disclose that this specie of mortgage bond lacks the safeguard of a large junior equity which is characteristic of a simple individual mortgage. Let us first define the amortized real estate construction bond then, in order to avoid any confusion with "ordinary real estate mortgages" which also have a place in this article due to the degree to which they have been replacing the amortized mortgage in the present investment market.

Defining the Amortized Mortgage

The amortized mortgage bond as a type has several distinctive characteristics. To start with its advantages (from the investor's standpoint), the amortization feature is a very effective method of protecting the buyer of the bond, for notwithstanding the fact that the entire property remains mortgaged during the life of the bond, the total amount of the mortgage is reduced in installments every year. These bonds more than not are issued to finance new construction—usually apartment houses, hotels or business properties—whose value is determined by its rental income and therefore is "worth more" as security for the loan during the earlier years.

For this reason an amortized bond can be issued *safely* for a larger sum against the same property than a simple mortgage. This feature—the larger sum of the mortgage in ratio to the value of the property—is, furthermore, another prominent characteristic of the amortized real estate mortgage bond. Casting all theories of appraised values aside, it is a fact in the actual practice of the mortgage bond firms during the past five or ten years, that the amount of the mortgage was quite fre-

quently sufficient to pay the entire cost of the building to be erected. Since the real estate financing field has been subjected to investigation by public officials in recent years, it is a known fact that a large number of the largest and most prominent operations financed by "amortized real estate construction bonds," involved little equity other than the value of the land or its equivalent. The ability of operators to obtain land on terms that provided for a subordinated mortgage, or possibly a leasehold transaction, made possible the "building on a shoestring" that was a by-word among the building fraternity in our larger cities.

Essential Safety of Mortgages

It must be emphasized here that this point is not made for the purpose of casting a shadow on real estate bonds of the type under discussion. Entirely disinterested authorities on real estate bonds frequently hold that the "worst amortized real estate construction bond is not an unsafe investment for the purposes of the average investor." To fully appreciate the truth of this statement one must realize the tremendous advantage that new property has over old property from the standpoint of rental income. It is merely a way of stating that new property can safely be mortgaged to the hilt, if adequate provision is made to retire the mortgage annually as its earning's value falls.

This type of mortgage is safeguarded furthermore, against all of the *ordinary* contingencies of the real estate market such as an intermediary slump in speculative real estate buying; shifting of values from one section to another, and a general "sleeping sickness" in the real estate market. Under the most trying of such "ordinary circumstances" the amortized bond has held up admirably, especially in instances where the issue was sponsored by a financially strong firm, and it was the amortization feature that made possible the familiar slogans about "So and so many years without loss to any investor," which were used by a number of the most prominent real estate mortgage firms not so long ago.

What the amortized bond is not protected against, however, is an abnormal and drastic reduction in the value of real estate locally or of a severe slump in value of the particular property which secures the loan. The amortized bond is so arranged that in a sense it grows safer year after year, but not at a rate to compensate for a sudden and severe drop in values. And this was the weak link in the chain that parted in 1927, arousing a good deal of public notice and comment, when several firms dealing in inflated land values in Florida and other southeast sections met with financial reverses.

The real estate mortgage business in general suffered severely from the repercussions that sprang from this unwelcome notoriety. As was to be expected, many investors and commentors who had previously frowned upon the amortization idea and its small equities, now came forth with eloquent I-told-you-so's and all types of mortgage investment offerings met with increased sales resistance. Up to this point, the tremendous growth of real estate financing had naturally given birth to the usual number of fly-by-night concerns, most of which went out of business rather abruptly and others died a slow death.

Held Up Well Under Pressure

Even the securities which were sold by the legion of small real estate concerns that operated on the fringe of respectability stood the test, however, with remarkable fortitude. Except in those instances where the value of the mortgaged property slumped drastically due to purely local inflation, such as had occurred in a number of Florida districts, real estate mortgage bonds continued to meet interest and maturity requirements even after their sponsors were no longer in business. The typical construction bond was serviced by an independent trustee, often a local bank or trust company, and the income from rentals passed directly through the portals of the trustee for the benefit of the bondholders.

Where the mortgage company, in effect, was both builder and financer, however, and was overtaken by financial difficulties prior to the completion and rental of the property, the holders of the bonds fared rather badly. Bondholders' committees collected indemnities where the completion of the building was guaranteed by a third party, and salvaged the assets that were in sight as well as could be done under the trying circumstances.

As far as the operations of the major companies were concerned, the actual investor loss was notably small in proportion to the amount of financing involved, and in its worst year, the losses from real estate mortgage bonds compared well with other classes of securities. The large substantial concerns, whose experienced management

The Current Building Situation and Mortgage Money Market

(From the June, 1928, Survey of National Association of Real Estate Boards)

Table I.—Percentage of Cities Reporting Overbuilding, Normal Supply or Shortage in Single-Family Dwellings, Apartments and Business Property as Compared with May, 1927.

Section and Size of City	Single Family Dwellings: Over-built	Nor-mal	Short-age	Apartments: Over-built	Nor-mal	Short-age	Business Property: Over-built	Nor-mal	Short-age
Total for United States and Canada	17	68	15	19	59	22	18	71	11
New England ...	11	89	..	..	78	22	..	100	..
Middle Atlantic..	24	67	9	30	57	13	16	75	9
E. N. Central....	16	70	14	18	57	25	24	66	10
W. N. Central...	5	67	28	9	82	9	9	74	17
South Atlantic....	19	69	12	27	58	15	21	72	7
E. S. Central....	9	73	18	46	27	27	18	82	..
W. S. Central....	21	54	25	24	40	36	8	92	..
Mountain	28	50	22	11	72	17	18	64	18
Pacific	12	69	19	9	58	33	19	64	17
Canada	..	75	25	20	80	..	..	80	20
Over 500,000	30	60	10	73	27	..	27	73	..
200,000 to 500,000	45	55	..	63	32	5	28	72	..
100,000 to 200,000	15	81	4	39	50	11	7	85	8
25,000 to 100,000.	20	71	9	11	66	23	14	74	12
Under 25,000......	11	65	24	11	62	27	18	70	12
District and County Boards	11	69	20	12	60	28	23	60	17

Table II.—Percentage of Cities Reporting an Excess, Equilibrium or Shortage of Money for Real Estate Mortgage Loans as Compared with May, 1927.

Section and Size of City	Capital Seeking Investment	Equilibrium	Loans Seeking Capital
Total for United States and Canada..	67	21	12
New England	56	33	11
Middle Atlantic	82	14	4
East North Central..................	62	29	9
West North Central..................	84	12	4
South Atlantic	60	14	26
East South Central..................	70	20	10
West South Central..................	63	12	25
Mountain	68	32	..
Pacific	60	28	12
Canada	100	..	..
Over 500,000	100	..	..
200,000 to 500,000..................	90	10	..
100,000 to 200,000..................	93	7	..
25,000 to 100,000...................	66	25	9
Under 25,000	53	30	17
District and County Boards..........	71	6	23

made it possible to entrench in their sales cost of new securities, and whose loans had been confined to locations that were not susceptible to sudden changes in real estate values came through the storm with flying colors. And when the atmosphere finally cleared up, it was found that there was a good deal more smoke than there was fire.

High Sales Cost Inherent

One factor that the real estate mortgage business has always had to contend with is the inherent cost of distributing this type of security. In earlier years when the war left this country with the heritage of a building shortage, high rentals were assured for almost all types of new buildings. Building operators could afford to "pay well" for their loans and the borrower met the high cost of distributing real estate mortgage bonds out of his own pocket with a smile. Large investors looked askance at the typical construction bond, probably because the firms with whom they generally did business did not handle this kind of investment issue, and because the high yields obtainable from other classes of securities attracted the sophisticated capital into other channels. Notwithstanding the efforts made to interest the large investor and the institutional buyer in real estate construction bonds, these bonds were formerly sold almost exclusively to the small investor. Because of the high sales cost in the small investor's market, these bonds were not as readily marketable as other types of investments—a feature that is of little concern to small investors, as long as safety of interest and principal is well assured.

About three years ago, a movement started that by this time has virtually revolutionized real estate financing. When interest rates began to fall on general investment securities, the 6 and 6½% coupon of a first mortgage real estate bond began to look pretty good to large buyers of bonds who saw yields fall below 5½ and 6% on medium grade investment bonds. This demand from institutions and large investors gave the dealers in general investment securities an opportunity to encroach into the real estate financing field. Today, the majority of real estate financing is being done by investment firms who in previous years had avoided this field and confined themselves to railroad, public utility and industrial bonds.

Real Estate Firms Enter the General Bond Field

In fact, the present year has seen a number of underwritings by "real estate firms" which were syndicated by "general investment firms." The sharp line of division that formerly existed between the real estate mortgage business and the general bond business has virtually disappeared—a tendency that gained much impetus recently when some of the oldest and most prominent "real estate firms" entered the general bond business and announced that they would deal in all kinds of standard investment securities in addition to their first mortgage real estate financing.

Commentators who had been crying "wolf, wolf" for many years are now compelled to admit that the predicted breakdown in real estate financing was limited largely to the failure of one large southern concern; a landslide of petty concerns which had a mushroom growth on the momentary popularity of anything that might be called a "real estate mortgage"; a severe slump in Florida land values that engulfed both buyers of land and buyers of mortgages, and a rather marked lethargy on the part of a number of formerly active and progressive real estate mortgage concerns. The substance of the real estate mortgage business, however, remains unimpaired, while the current year witnesses a record volume in real estate financing. So it is really those who recognized the soundness of the mortgage as an effective instrument of investor protection; conceded the added measure of protection afforded by "amortization" and advised discrimination to prospective investors instead of "hands off," that today could well say I-told-you-so.

Table III.—Growth of Real Estate Financing*

Year	Total (Millions of dollars)
1920	92
1921	53
1922	179
1923	252
1924	335
1925	752
1926	736
1927	668
1928 (5 months)	380

* As compiled by "The Commercial & Financial Chronicle."

What is the status of real estate bonds at present? This question must obviously be answered with generalizations because the individual points of merit for each issue should be the basis on which the investor makes his selection. This publication has always decried the tendency in the real estate mortgage field to make blanket recommendations: that is, to say that "all real estate mortgages are good," that "no real estate bonds are high grade," that "So and so's real estate bonds are safe," etc. Investors have learned through bitter experience not to buy a real estate bond merely because it was brought out and stamped with the name of any particular company. Those who demanded safe locations, conservative appraisals, reasonably well assured rental incomes from each individual bond they purchased irrespective of which underwriting firms sponsored the issue, have found real estate mortgages of all types eminently satisfactory investments from the standpoint of safety.

There are, however, a number of appropriate generalizations that can be made concerning real estate mortgage bonds as a group. As far as the trend of real estate values are concerned, the condition of housing shortages and scarcity of business property that existed five years or so ago has been almost universally corrected; many localities now report a condition of overbuilding. Rentals and real estate values have experienced a slow decline in the past few years, building costs are lower but new construction continues to make a very satisfactory showing in the face of predictions of an impending slow-down. Variations in real estate trends will, of course, be experienced in different vicinities depending upon local conditions. It seems likely that values will remain stationary for some time, with a tendency to ease off in overbuilt localities. No slump in values of sufficient degree to impair the soundness nor the safety of a good mortgage issue is in sight, in fact there is no economic condition that stands in the way of the upward secular trend of real estate values over a long period of years. A 6% income return is still available on good real estate mortgage bond offerings, with a range of as high as 6½% to lower than 5½% on individual issues in recent months.

Past Experience Suggests Remedies

From experiences of the past year or so, some of the weak points in the practice of real estate financing have come to light and have been or are being corrected. The value of an independent trustee to protect the interests of the bond holder has been emphasized by the experiences of the past. To protect the bond holder during the period of construction, three methods are now employed by the more conservative firms; first, to withhold the public offering of securities until the completion of the building; second, to turn all funds over to the trustee, who makes advances only as the construction advances, and third, to obtain strong guarantees of the completion of the building on schedule.

Real estate bonds are being sold by general investment firms to their institutional customers and large investors, and the larger issues are provided with a degree of marketability that compares favorably with other types of investment bonds. Lenders of first mortgage money are competing for loans in many localities, and consequently the borrower pays a smaller cost for his money. The firms that could not sell real estate mortgages on a small margin of profit have either gone out of business, spread their in-

terest over a wider group of investments or are not very active in the present market. The safeguard of independent property appraisals is more universally adopted and in some cases, actual cost of construction and land values are disclosed to the prospective investor so that he can determine the ratio of junior equity behind his investment to his own satisfaction.

Investment Plane

All of these tendencies place the real estate mortgage bond on a considerably higher investment plane, a fact that is reflected in the increasing demand for such issues by the sophisticated bond buyer. Mortgage money responds to the supply and demand for mortgages as much as it does to the general state of money rates and has not fallen as quickly as other classes of loans. Consequently, mortgage bonds are offered at a yield basis slightly higher than other classes of bonds of similar investment merit, whereas a number of years ago the opposite status prevailed. And it is largely due to these conditions that real estate securities are being sold in larger volume than ever before with a conspicuous absence of sales pressure or publicity effort.

Three Types of Mortgage Bonds Currently Available

There are three general classes into which real estate bonds may be grouped as they are available to investors at the present time. The amortized construction bond, described in some detail elsewhere in this article, is offered by the real estate mortgage specialists, who in addition to their functions as financiers have facilities for making appraisals, advancing funds during construction and collecting rentals to meet annual interest and maturities. Another form of mortgage is the "guaranteed mortgage" issues on individual dwellings or in the form of "mortgage certificates" which is really a large mortgage split up into smaller shares of interest. This class of mortgage investment is frequently offered for savings bank and trust funds as well as for individual investors and is essentially a conservative investment but yields a smaller rate of income than the construction bond. Largely a product of the past few years is the straight first mortgage bond, underwritten by general investment firms and sold through syndicates and retail channels to individual investors. Unlike the first two groups, the firms dealing in general investment securities find it necessary to put out a bond that has a quoted and fairly active market. Although frequently protected by a sinking fund that retires a portion of the issue each year, this group of mortgage offerings is usually not protected by the "amortization plan" and may be issued for construction purposes, refunding of a standing mortgage or a new mortgage on a completed building.

Bond Buyers' Guide

NOTE.—The following list of bonds has been arranged solely on the basis of current yields to maturity. The position of any issue is not intended as an indication of its relative investment merit. Readers should observe a proper diversification of commitments in making their selections from this list.

Government

	Prior Liens (Millions)	Interest Times Earned on All Funded Debt	Call Price	Price	Current Income	Yield to Maturity
Panama 5½s, 1953 (a)	....	...	102½GT	102	5.4	5.4
Dominican 5½s, 1942 (a)	....	...	101G	99	5.5	5.6
Haiti 6s, 1952 (b)	....	...	100	100	6.0	6.0
Argentine 6s, 1959 (a)	....	...	100	100	6.0	6.0
Chile 6s, 1960 (a)	....	...	100	94	6.4	6.4

Railroads

	Prior Liens (Millions)	Interest Times Earned on All Funded Debt	Call Price	Price	Current Income	Yield to Maturity
Rock Island-Frisco Terminal 1st 4½s, 1957 (d)	....	X	102½T	97	4.6	4.6
Atchison, Top. & S. F. Conv. 4s, 1955	267.4	4.75	110	90	4.4	4.6
Illinois Central 4¾s, 1966 (a)	....	2.25	102½GT	99	4.8	4.8
Pennsylvania 5s, 1964	....	2.78	105T	103	4.8	4.8
Central Pacific Guar. 5s, 1960 (a)	....	2.58	105GT	101	4.9	4.9
Southern Railway Dev. & Gen. 6s, 1956	133.8	1.90	....	114	5.2	5.0
Great Northern Gen. A 7s, 1936 (b)	139.8	2.64	....	113	6.2	5.0
Missouri Pacific 1st & Ref. 5s, 1977 (a)	125.2	1.32	105A	99	5.0	5.1
Cuba R. R. 1st 5s, 1952	....	3.07	....	99	5.0	5.1
Western Pacific 1st 5s, 1946 (b)	....	2.29	100	99	5.0	5.1
Central of Georgia Ref. 5½s, 1959	31.1	1.80	105AG	107	5.1	5.1
Chesapeake Corp. 5s, 1947	....	2.45	100	98	5.1	5.2
N. Y., Chic. & St. Louis Ref. 5½s, 1974 (a)	59.6	2.49	107½	106	5.2	5.2
Chic. & W. Indiana 1st Ref. 5½s, 1962	49.9	X	105	105	5.2	5.2
Northern Pacific Ref. & Impr. 6s, 2047 (a)	166.7	2.32	110G	113	5.3	5.3
Wabash Ref. & Gen. 5½s, 1975 (a)	62.4	2.02	105AG	104	5.3	5.3
Carolina, Clinchfield & Ohio 1st & Cons. 6s, 1952 (b)	13.9	X	107½T	109	5.5	5.3
Minn., St. Paul & S. S. M. 1st 4s, 1938	....	1.17	....	88	4.5	5.5
Baltimore & Ohio Ref. & Gen. 6s, 1995 (a)	284.2	1.56	107½AG	109	5.5	5.5
Vicksburg, Shreveport & Pac. Ref. 6s, 1973 (d)	2.0	X	107½AT	105	5.7	5.7

Public Utilities

	Prior Liens (Millions)	Interest Times Earned on All Funded Debt	Call Price	Price	Current Income	Yield to Maturity
Pacific Gas & Elec. Gen. Ref. 5s, 1942	34.6	1.95	105T	100	5.0	5.0
Hudson & Manhattan 1st Ref. 5s, 1957 (b)	5.9	2.11	105	99	5.0	5.1
Montana Power Deb. 5s, 1962 (a)	34.7	2.62	105T	100	5.0	5.0
Columbia Gas & Elec. Deb. 5s, 1952	....	6.96	105T	99	5.0	5.1
Utah Power & Light 1st 5s, 1944	....	1.86	105	100	5.0	5.0
Indiana Natural Gas & Oil Ref. 5s, 1936	....	2.69	....	100	5.0	5.0
Consol. Gas of N. Y. Deb. 6½s, 1945 (a)	....	4.09	106T	106	5.2	5.0
Detroit Edison 1st & Ref. 6s, 1940 (b)	14.0	2.41	107½T	108	5.5	5.1
Seattle Electric—Seattle Everett 1st 5s, 1939 (d)	....	1.76	105	96	5.2	5.4
Consol. Gas, E. L. & P. of Balt. 1st Ref. 6s, 1949 (a) (c)	32.2	2.69	107½T	106	5.6	5.5
Phil. Rap. Trans. 6s, 1962 (c)	10.0	1.21	105	104	5.8	5.7
Amer. Water Works & Elec. Deb. 6s, 1975 (5)	12.7	1.33	110	105	5.7	5.7
Twin City Rap. Transit 1st & Ref. 5½s, 1952 (b) (d)	4.4	2.30	105T	95	5.7	5.8

Industrials

	Prior Liens (Millions)	Interest Times Earned on All Funded Debt	Call Price	Price	Current Income	Yield to Maturity
Gulf Oil Deb. 5s, 1947 (c)	....	15.39	104AT	100	5.0	5.0
Youngstown Sheet & Tube 1st 5s, 1978 (a)	....	4.12	105T	100	5.0	5.0
Allis Chalmers Deb. 5s, 1937 (a)	....	4.80	103T	99	5.0	5.1
International Match Deb. 5s, 1947 (a)	....	6.16	103T	98	5.1	5.1
Chile Copper Deb. 5s, 1947 (a)	....	6.26	102T	95	5.3	5.4
Sinclair Pipe Line 5s, 1942 (a)	....	4.27	103	94	5.3	5.6
Amer. Chain 6s, 1933 (a)	....	6.87	105	102	5.9	5.6
Amer. Cyanamid Deb. 5s, 1942	....	4.10	100	93	5.4	5.7
Bethlehem Steel Cons. 6s, 1948	101.3	2.33	105	103	5.8	5.7
Loew's Inc. 6s, 1941 (ex warrants) (a)	....	6.70	105T	100	6.0	6.0
U. S. Rubber 1st & Ref. 5s, 1947 (b)	2.6	2.60	105A	87	5.8	6.2
Schulco B 6½s, 1946 (a)	4.0	X	103T	102	6.3	6.3

Short Terms

	Prior Liens (Millions)	Interest Times Earned on All Funded Debt	Call Price	Price	Current Income	Yield to Maturity
Standard Milling 1st 5s, Nov. 1, 1930	....	4.75	....	100	5.0	5.0
N. Y., Chic. & St. Louis 2nd & Impr. 6s, May 1, 1931 (a)	17.3	2.49	102	102¼	5.9	5.2
Central of Georgia Sec. 6s, June 1, 1929	31.0	1.80	101AT	100⅝	5.9	5.1
Georgia, Carolina & Nor. 1st 5s, July 1, 1929	....	1.28	....	99¼	5.0	5.8
Sloss-Sheffield P. M. 6s, Aug. 1, 1929	1.6	6.79	105	100⅛	6.0	5.8

All bonds are in $1,000 denominations only, except (a) lowest denomination $500, (b) $100. Earnings are on five-year average basis unless available only for shorter period.

A—Callable as a whole only. T—Callable at gradually lower prices. G—Not callable until 1930 or later. X—Guaranteed by proprietary companies. (c) Listed on New York Curb. (d) Available over-the-counter.

Better Prices for Copper Place Companies in Advantageous Position

By H. W. KNODEL

A Thorough Analysis of the Copper Situation

A STRONG upward trend in the price of copper during the first six months of 1928 has been the cause for a renewed interest in the shares of copper companies. From the viewpoint of price received for the metal, the year 1927 was the poorest since 1921, a year when the industry was severely depressed. The year 1928 promises to be considerably better than last year, already several important increases in dividend rate have been announced and with the improved outlook the question arises in the mind of the investor, "Which copper stocks are the best purchases, and which companies will benefit most by the higher copper prices?"

In this article some important phases relating to the future of the industry are discussed and it goes into detail on the costs of production for the various companies, and the possibilities in the way of higher earnings with the advance in copper prices.

The companies included in the study are, with one or two minor exceptions, all those with a production capacity of 10,000,000 pounds per year or more, the securities of which are listed on an exchange or in which a public interest exists.

I—Copper Industry Has Not Been Very Prosperous.

To the holders of copper shares particularly, the undulations in the copper market have been the cause alternately of hope when the price of the metal was riding upward toward the crest, and then of despair as the price after a brief rise sank back into the trough. Since the opulent days of the war, the copper companies have never been exceedingly prosperous and in recent years with copper selling most of the time below its pre-war price the situation could seldom be described optimistically.

Time and again the hope that was raised when copper began moving upward to a level which promised better earnings was shattered as the market for the metal after a short lived rise relapsed into its former state of demoralization. With conditions as they were in the copper industry in the past seven years, profits for the companies were very much on a "catch as catch can" basis, and this despite the fact that generally speaking the country has been prosperous during this same period. It can safely be said that this prosperity was not participated in to any great degree by the copper companies.

II—Consumption of Metal Satisfactory.

In seeking a reason for this state of affairs, we find that it does not lie in a drastic curtailment in the use of copper, for as a matter of fact consumption has actually been on the increase, aided by the phenomenal development of the electrical industry in all its branches, and by the many new uses to which the metal is put chiefly by virtue of its corrosion resisting properties and to no small extent by its relatively low price.

III—Tendency to Overproduction.

Rather, the reason lies in other directions. Copper companies in attempting to reduce their cost of production have sought to do so by improvements in mechanical and operating technique, which would result in cutting expenses, and also by increasing their production or production capacities. Many copper companies, especially the porphyry or open cut properties, are at present in a position where they can easily increase their current production should conditions in the market warrant. In the past, when the price of the metal advanced appreciably, production was stepped up with the natural result of soon nullifying the conditions which induced the advance. However, when conditions called for an adjustment of production to lower levels, there was a considerable degree of inertia in the industry. The output was not quickly adjusted to prevent undue accumulation of the metal, and the price soon became depressed. This was clearly the case in the latter part of 1923, when copper dropped from over 16 cents per pound in April to a level of about 12 cents per pound almost throughout the entire latter half of the year and producers continued operating practically at capacity.

IV—Secondary Copper Increasing.

A second factor which is becoming of increasing importance, which has acted and probably will continue to act in the future as a check to higher copper prices, is the steadily increasing amount of secondary copper coming into the market. The more primary or virgin copper produced (from ores) the greater the potential source of supply of secondary copper, as the metal is practically non-corrosive, and the bulk of the new supplies is used in such form where it does not lose its identity and is recoverable. In 1926 for every pound of new copper mined and shipped for domestic consumption, 0.53 pound of salvaged copper was marketed.

The last five years have witnessed a tremendous increase in the quantities of salvaged copper returned to industry for re-use, and this increase has been much more rapid than the increase in mine production. In 1923, for instance, secondary copper produced from old scrap was reported as 541,800,000 pounds, while in 1926 it increased to 674,600,000 pounds, a rise of 24%. Smelter production in the United States over the same period increased only 14%. The figures for scrap copper are low rather than high, according to J. P. Dunlop of the United States Bureau of Mines, and at best can never be anything more than approximations.

Technical methods for treating scrap, discards, etc., have been developed and improved and some of the large metal companies such as Nichols Copper Co., American Metal Co. and International Minerals & Metals Co. have become either directly or through subsidiaries, important factors in the salvaged metal industry.

V—Big Copper Price Advance Unlikely.

Under this two-fold circumstance of a potential production capacity from

the mines considerably in excess of current consumption demands and of an ever increasing amount of secondary copper coming into the market, it is unlikely that the price of copper will attain for a prolonged period a price much higher than it has been averaging in the last few years. This conviction is strengthened by the fact that some large copper mining developments outside the United States have been brought to the producing stage, noteworthy of mention being the Andes Copper Co. in South America. Greene Cananea, in its recently discovered Colorado ore body, promises to become one of the large, low cost producers. African copper, principally from the Union Miniere du Haut Katanga, has become an important factor in the copper market, and other projects are being developed, of which prominently mentioned is Bwana M'Kubwa in Rhodesia. In 1923, the total production of copper for the world was reported as 1,411,980 tons (2,000 lbs.), while in 1927, it amounted to 1,670,451 tons, an increase of 258,471 tons or over 18%. This increase in production was about equally divided between the United States and the remainder of the world.

VI—Industry Tending Toward Greater Concentration.

An important development which has been going on quietly in the copper industry in the last few years is the gradual concentration of control of the larger producing properties into the hands of several strong groups. The bane of the industry has been lack of coordination and cooperation for the common interest due chiefly to the number of companies operating in the industry, working at cross-purposes.

Let us cite two important cases of concentration of control. Thus, Kennecott Copper Corporation is mainly a holding company owning in addition to its Alaska mines, the Braden Copper Co., one of the large South American producers, and Utah Copper Co., of which it now owns about 99% of the stock. Utah Copper Co. in turn owns approximately 43% of Nevada Consolidated Copper Co., this latter company consisting of a consolidation of three formerly separate properties—the Nevada, Chino and Ray companies. Kennecott, in addition, has a share in Motherlode Coalition, but this property is not of great importance.

Another instance is Anaconda Copper Mining Co., which owns control of Chile Copper Co., Andes Copper Mining Co. and the Santiago Mining Corporation, and is influential in the affairs of Inspiration Consolidated Copper Co. and Greene Cananea Copper Co.

VII—Cost of Production and Trend.

The safest assumption the investor can make in purchasing copper stocks is that the price of copper will continue moderate, and therefore the shares of the "low cost producers" should be bought. As to which companies these are, it has been suggested by a well-known authority that the prospective investors follow their hunches rather than sitting down with a pencil and paper and attempt to figure it out from a sheaf of company reports. Analyzing annual reports of most corporations is fraught with much confusion even for the professional statistician owing to the lack of explanation as to the basis of evaluating the assets, and to the variable methods of accounting.

But to paraphrase Bret Harte, for

Table #1.

Trend of Copper Production Costs.*

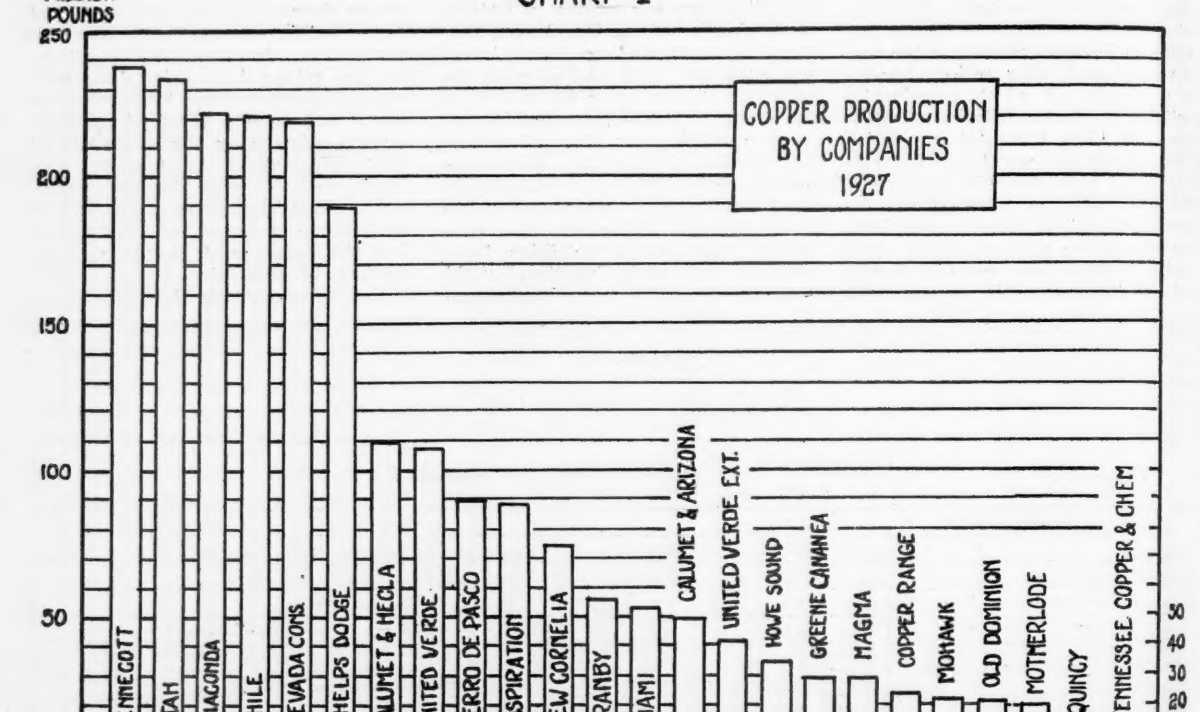
Company	Production Cost.* Cents per Pound.					Comment.
	1923	1924	1925	1926	1927	
New York Stock Exchange						
Anaconda	10.00 (1)	10.50 (1)	—	10.75 (1)	—	No downward trend in costs apparent
Calumet & Arizona	12.52	11.68	11.36	10.57	11.25	No definite trend; costs fairly high
Calumet & Hecla	10.80	11.30	10.02	9.60	9.75	Improvement in Cost shown
Cerro de Pasco	6.60	4.30	3.60	5.30	6.55	Low cost producer; large silver output.
Chile Copper	6.64	6.43	6.32	6.64	6.89	Low cost producer, costs stabilized
Granby Cons.	11.81	10.60	10.53	9.51	9.86	Slight downward trend in costs
Greene Cananea	13.51	11.67	10.76	10.69	9.63	Improvement in cost shown
Howe Sound	—	—	—	—	—	Produces chiefly lead and zinc
Inspiration	11.16	10.58	11.84	12.01	10.67	No definite trend; costs fairly high
Kennecott (2)	8.23	8.98	7.95	7.88	8.73	Favorable cost figures
Magma	—	7.87	7.51	7.90	8.60	Favorable costs but slight upward trend
Miami	10.93	11.23	12.56	10.60	11.19	No definite trend; costs relatively high
Motherlode	5.50	6.67	6.54	7.88	8.33	Production costs increasing; mine is liquidating
Nevada Cons.	10.10	9.84	9.48	9.82	9.29	Steady improvement shown.
Tennessee Copper & Chem	—	—	—	—	—	Produces chiefly acid
Utah Copper	7.97	8.23	7.77	7.73	6.91	Low cost producer, steady improvement shown
New York Curb Market						
New Cornelia	8.69	8.34	8.62	8.48	8.78	Costs fairly low and stabilized
Phelps-Dodge	11.70	10.65	9.80	9.80	10.50	Costs moderate
United Verde Extension	7.87	7.65	7.16	7.08	8.28	Favorable costs, but big increase in 1927
Boston						
Copper Range	14.12	12.86	14.81	12.95	11.65	Cost still high but improving
Mohawk	—	11.45	10.16	9.17	7.97	Steady improvement shown
Old Dominion	11.72	13.81	11.96	12.21	12.31	Costs still unfavorable
Quincy	16.90	14.24	14.15	14.78	15.52	Costs high

* Operating Costs Only. Depreciation, Depletion, and Other Non-cash outlay items excluded. Precious metals and others Credited
(1) Estimated after Depreciation
(2) Includes Alaska properties and Braden properties in South America

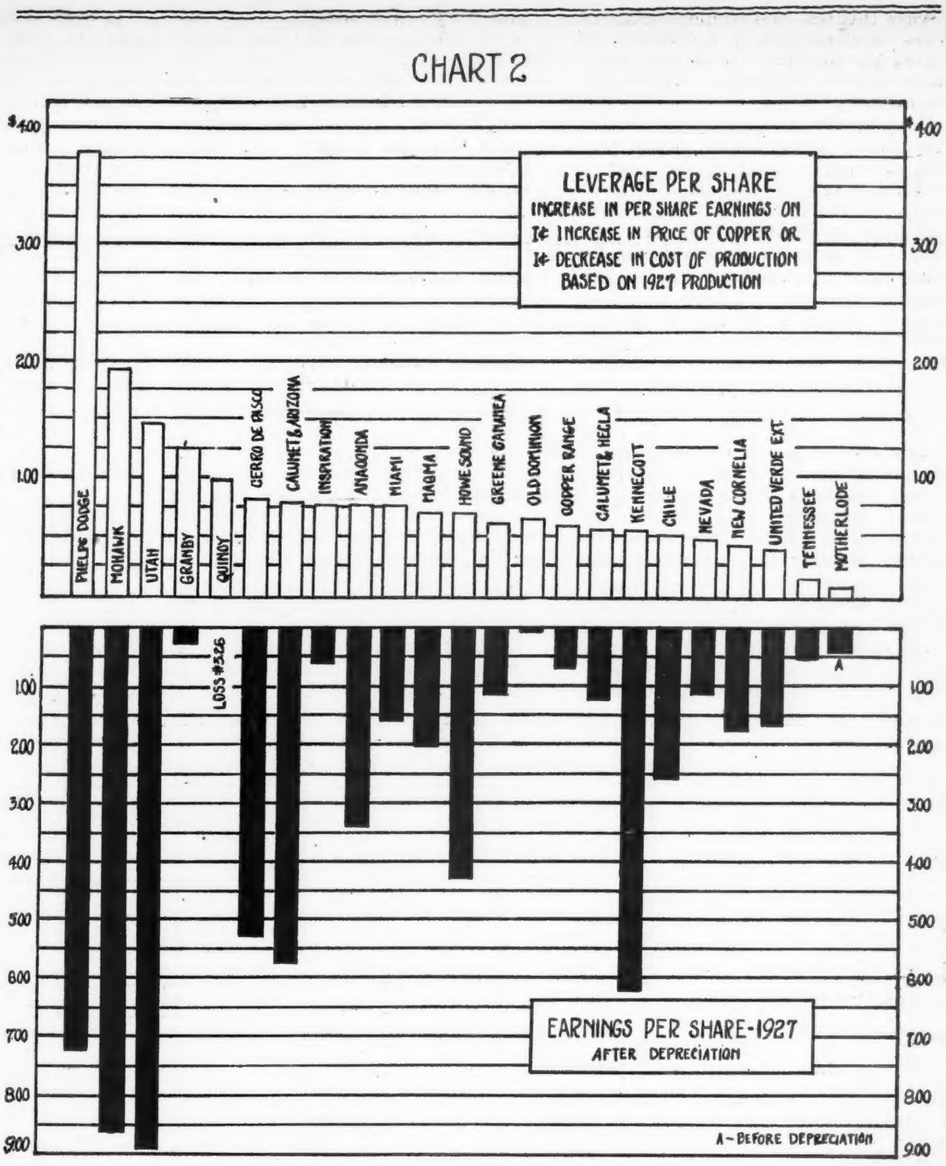
ways that are dark and for tricks that are vain, the methods of mine accountants are peculiar. If we wish to find out what it costs a company to produce a pound of copper, we find the answer to be an equivocation. Say the reports: "Includes depreciation, state and local taxes, but not federal income tax," "includes depreciation, state, local and part federal tax," "includes depreciation, but not taxes," "after depreciation, crediting other metals"; "after depreciation, development and exploration," "includes depletion, after deduction of appreciation realized during year," "after depreciation and depletion," "does not include depreciation," and so on.

With this confusion, it is difficult, to say the least, to compare the cost of production of the various copper companies and decide which of them are low cost producers. To further confuse the problem, there is no uniformity with respect to the rates and amounts charged off for depreciation and depletion. Most of the companies report depreciation, but only a few give the amount of depletion. Depreciation per pound of copper produced in 1927 varies all the way from 29/100 of a cent for Old Dominion Company to 2-41/100 cents for Granby Consolidated. For the few companies reporting depletion, Old Dominion reports 56/100 of a cent per pound of copper produced, while the high mark is registered by United Verde Extension with 5-43/100 cents per pound. In still other cases, companies with bond issues outstanding will include interest charges in cost of production. This, obviously, would not be done if these companies had raised all their capital through stock issues.

CHART 1



To avoid all these ambiguities, the writer has compiled a table (Table No. 1) showing the operating costs per pound for the important copper producing companies. These figures were arrived at after including all proper operating charges requiring cash outlay, including taxes, but excluding bond interest charges, depreciation and depletion. The cost figures are computed for each year back to 1923, this latter year being the first year after the war period in which the companies became adjusted to the new conditions, and the first year in which production for most companies approached the normal.



VIII—Porphyrys Lower Cost Producers.

It is possible from this table not only to see how the companies stand with respect to operating costs, but to determine the trend of production costs. Of the 21 companies for which costs are figured for the year 1927, only three had operating production costs ranging from 6 cents and 7 cents; only one company from 7 to 8 cents; five companies from 8 and 9 cents; four companies from 9 and 10 cents; three companies (including Anaconda) from 10 and 11 cents; three companies from 11 and 12 cents; and two companies above 12 cents per pound. Chart No. 1 shows graphically the 1927 production of the copper companies whose output was in excess of 10,000,000 pounds of copper (with one or two minor exceptions) together with the operating cost and depreciation per pound.

As between the vein mines and the porphyry mines, or those mines having disseminated ore bodies, the production cost figures would favor the latter. Two of the three producers with costs less than 7 cents per pound are of this class; the two producers with costs above 12 cents per pound are both vein properties. To make a fairer and more inclusive comparison, eight vein properties and five porphyry properties had production costs of less than 10 cents per pound in 1927; and six vein companies and two porphyry properties had costs exceeding 10 cents per pound. This still shows that the advantage lies with the porphyry companies, but at the same time shows that some of the vein companies are efficient and economic producers.

To the surprise of some observers, the lake copper producers are staging a strong comeback. One of the lake companies, the Mohawk Mining Co., had an operating cost of less than 8 cents per pound for 1927, while the largest of the lake producers, Calumet & Hecla Consolidated Copper Co., had an operating cost of less than 10 cents per pound. It should be remembered in connection with the lake producers that lake copper sells at a premium over electrolytic copper, in the last few years averaging about ¼ of a cent per pound, giving them that much advantage over the other copper producers.

IX—Earnings of the Copper Companies.

Somewhat apart from the important matter of production costs of copper companies, and affecting the investor more directly is the amount of profit earned by the companies. With a favorable cost of production, and with assurance of ample developed and undeveloped ore reserves, it is probable that the company will continue to occupy an advantageous position in the industry.

The average price of electrolytic copper during 1927 was 12.92 cents per pound, the lowest average since 1921, and considerably below pre-war average prices. With a price average as low as this, it may safely be assumed that the copper producing companies in order to show favorable results were operating at as high a degree of efficiency as was attainable by them.

The results for the year 1927 in earnings per share after depreciaton charges are shown on Chart No. 2. The number of shares which a company has outstanding, of course, affects the earnings per share figure in addition to whether the company is a good earner or not, but this is taken into

account in the market price of the stock. The position of a company on the chart, therefore, does not necessarily indicate its relative standing in the industry.

Most of the companies included in this analysis are primarily copper producing concerns, so that the cost of production reflects the relative prosperity (or the lack of it) of the company. In some instances, however, the companies have other sources of income, large or small; and while a few may not show up well from the viewpoint of having a low cost of production, their income from sources other than their own copper production places their stock in a stronger position than would otherwise be the case.

Anaconda Copper Mining Co., for instance, represents a considerable degree of integration through ownership of the American Brass Company, the largest fabricator of copper in the United States. Indirectly, through the Silesian Holding Co., Anaconda holds controlling interest in the von Giesche mining properties in Germany and Poland. Anaconda is also a large producer of zinc and lead and in smaller quantities produces silver, antimony and arsenic. In addition, Anaconda as before noted, owns directly or indirectly 51% of the stock of Chile Copper Co., a low cost producer; 31% of the stock of the Inspiration Consolidated Copper Co., a relatively high cost producer; about 12% of the stock of Greene Cananea Copper Co., which through its recently uncovered ore reserves is expected within a few years to become one of the large low cost producers; and is largely interested in the International Smelting Co., an important lead and silver producer; and a number of other concerns. The Anaconda Copper Mining Co. obviously has a wide diversity of interests.

Kennecott Copper Corporation is in the enviable position of being the largest producer of copper in 1927 (Braden Mines included) and of owning 99% of the stock of the second largest producer, the Utah Copper Co., which incidentally is also one of the lowest cost producers, and indirectly about 43% of the stock of Nevada Consolidated Copper Co., the fifth largest producer. So far, Kennecott has not gone very far out of the purely copper mining and producing field.

Calumet and Arizona Mining Co., a relatively high cost producer with an output of about 49,000,000 pounds of copper in 1927, owns over 67% of the stock of New Cornelia Copper Co., a relatively low cost producer, with an output of about 73,000,000 pounds of copper in 1927.

Howe Sound Company, while producing a substantial quantity of copper from the properties of the Britannia Mining and Smelting Co., is more important as a lead and zinc producer. Tennessee Copper & Chemical Corporation receives most of its income from the sale of sulphuric acid.

To a greater or lesser degree other companies considered in this analysis have other sources of income in addition to that received from the production of copper. This income, of course, will be reflected in the earnings per share for the company.

X—Higher Earnings in Prospect.

During 1928, the price of copper has recovered from the depressed levels of 1927 and for the first six months has averaged more than a cent above the 1927 price, and is currently about 1¾ cents above the 1927 price. This higher price for the metal of course means higher earnings for the producers, but with different rates of pro-

TABLE 2

COMPANY	NUMBER OF SHARES	PAR VALUE	1927 EARNINGS PER SHARE: AFTER DEPRECIATION	1927 EARNINGS PER SHARE: DEPRECIATION PER SHARE	DIVIDENDS PER SHARE	MARKET PRICE	YIELD	ESTIMATED EARNINGS PER SHARE: 14¢ COPPER	ESTIMATED EARNINGS PER SHARE: 15¢ COPPER
Listed on New York Stock Exchange									
Anaconda	3,000,000	$50	$3.38	$1.59	$4.00	69½	5.7%	$4.18 (3)	$4.98 (3)
Calumet & Arizona	642,757	10	5.80	0.69	6.00	100¼	6.0	6.62 (3)	7.45 (3)
Calumet & Hecla	2,005,502	25	1.24	0.72	2.00	23¼	8.6	1.82	2.40
Cerro de Pasco	1,122,842	no par	5.28 (1)	1.68	5.00	78¼	6.4	6.14	7.00
Chile	4,415,497	25	2.56	0.60	2.50	46¼	5.4	3.10	3.64
Granby	444,604	100	0.22	3.00	4.00	54½	7.4	1.57	2.92
Greene Cananea	500,000	100	1.16	0.81	4.00	108	3.7	1.78	2.40
Howe Sound	496,038	no par	4.32	1.89	4.00	59¾	6.6	5.08	5.84
Inspiration	1,181,967	20	0.62	0.64	—	22½	—	1.43	2.24
Kennecott	4,516,163	no par	6.23	0.90	5.00	92	5.4	6.80 (3)	7.37 (3)
Magma	408,155	no par	2.02	0.96	3.00	53	5.6	2.78	3.54
Miami	747,116	5	1.53	0.60	1.50	20½	7.3	2.30	3.07
Motherlode	2,500,000	no par	0.47 (2)	none	0.30	2¾	10.9	0.56	0.64
Nevada	4,855,109	no par	1.18	0.39	1.50	23	6.5	1.67	2.16
Tennessee	794,626	no par	0.51	0.54	0.62½	14	4.5	0.66	.081
Utah	1,624,490	10	8.98	0.91	6.00	159	3.8	10.52 (3)	12.06 (3)
New York Curb									
New Cornelia	1,800,000	5	1.74	0.24	2.00	28½	7.0	2.17	2.60
Phelps Dodge	500,000	100	7.25	3.81	8.00	140	5.7	11.32	15.39
United Verde Extension	1,050,000	$½	1.62	0.54	2.00	15	13.3	2.04	2.40
Boston									
Copper Range	394,755	25	0.72 (1)	0.57	—	18¼	—	1.35	1.98
Mohawk	115,000	18	8.58	0.68	5.00	57	8.8	10.65	12.72
Old Dominion	350,000	25	loss 0.09	0.18	—	11½	—	0.60	1.27
Quincy	110,000	25	loss 3.26	[0.51]'	—	34¼	—	loss 2.36	loss 1.46

(1) Depreciation Estimated (2) Before depreciation (3) Not including increase thru equity of affiliated companies

duction and different capitalizations, the increases in per share earnings would naturally vary.

On chart No. 2 also is shown the "Leverage per Share" or the effect on per share earnings based on the operations for the year 1927 of a 1-cent increase in the price of copper, or a 1-cent decrease in the cost of production, or a combination of these aggregating 1-cent per pound in favor of the company.

On the other hand, should this differential of 1 cent per pound be against the company, the "Leverage per Share" would indicate the amount the per share earnings would suffer. The amounts shown are based only on the direct operation of the various companies and do not take into consideration the equities in affiliated copper producing companies.

A further elaboration of the effect of higher copper prices on the producing companies is given in Table No. 2 showing the per share earnings based on 14 cents per pound copper, and 15 cents per pound copper. These figures, likewise, do not include the increase accruing to a company through its equities in affiliated companies.

The three important cases where these equities should be included are Anaconda Copper Mining Co., Kennecott Copper Corporation, and Calumet & Arizona Mining Co. Including Anaconda's equity in Chile Copper Co., the Inspiration Consolidated Copper Co., and in Greene Cananea Copper Co., the earnings based on 14-cent copper should be $4.70 per share, and on 15-cent copper should be $5.98 per share after depreciation.

Kennecott Copper Corporation, including its equity in Utah Copper Co. and Nevada Consolidated Copper Co., should earn $8.50 per share after depreciation on 14-cent copper, and $9.80 per share on 15-cent copper. Calumet & Arizona, including its equity in New Cornelia Copper Co., will show $6.94 per share after depreciation on 14-cent copper, and $8.56 per share on 15-cent copper.

In considering an investment in the common shares of copper companies, the "Leverage per Share" is particularly important in a rising copper market, as an indication of the additional profits which would be earned by a company. This naturally would presage not only the amount of a higher dividend disbursement, but also the possible extent of appreciation in the market price of the share of the company.

Irrespective of these things, however, the investor should assure himself as to the relative position in the industry of the companies under consideration with respect to production, cost of production, trend of the cost of production for the past few years, investments in affiliated companies, as well as earnings and dividends. If the data on production, and cost of production are favorable, this undoubtedly means that the company is in a position to withstand periods of depression, and certainly will prosper when conditions in the industry have improved.

Preferred Stock Guide

NOTE: The following list of preferred stocks has been arranged solely on the basis of current yields. The position of any stock in the Guide is not intended as an indication of its relative investment merit. Readers should observe a proper diversification of commitments in making their selections from this list.

Railroads

	Div. Rate $ per Share	Earned $ per Share 1925	1926	1927	Redeemable	Recent Price	Yield %
Norfolk & Western	4 (N)	115.54	160.35	133.40	No	89	4.5
Atchison, Top. & S. Fe......	5 (N)	37.17	48.83	40.47	No	106	4.7
Union Pacific	4 (N)	38.41	41.17	39.35	No	86	4.7
Baltimore & Ohio	4 (N)	35.33	48.41	38.44	No	80	5.0
Southern Railway	5 (N)	37.63	39.33	36.17	100	100	5.0
Colorado & Southern 1st......	4 (N)	43.18	52.56	57.76	No	78	5.1
Pere Marquette Prior.........	5 (C)	57.50	68.77	64.08	100	99	5.1
Wabash "A"	5 (N)	11.48	11.86	6.87	110	96	5.2
Colorado & Southern 2nd.....	4 (N)	39.13	48.59	58.76	No	74	5.4
N. Y., Chicago & St. Louis..	6 (C)	24.91	24.65	20.31	110	108	5.6
St. Louis Southwestern	5 (N)	11.96	12.09	9.30	No	89	5.6
Kansas City Southern	4 (N)	10.06	10.86	9.04	No	69	5.8
Chic., Rock Is. & Pac. 2nd...	6 (†)	12.23	20.57	22.49	102	102	5.9
N. Y., New Haven & Hart..	7 (C)	....	....	22.05	115	114	6.1
St. Louis, San Francisco.....	6 (N)	102.65	108.19	107.70	100	97	6.2

Public Utilities

	Div. Rate $ per Share	Earned $ per Share 1925	1926	1927	Redeemable	Recent Price	Yield %
Public Service of New Jersey	8 (C)	§19.66	§21.46	§16.28	No	147	5.4
Hudson & Man. R. R. Conv.	5 (N)	34.12	40.32	40.70	No	91	5.5
North American Co..........	3 (C)	21.91	28.95	31.73	55	54	5.6
Federal Light & Traction....	6 (C)	33.02	41.51	39.67	110	107	5.6
Columbia Gas & Electric.....	6 (C)	....	27.81	25.42	110	108	5.6
Philadelphia Co.	3 (C)	23.53	24.20	28.28	No	53	5.7
Amer. Water Works & El...	6 (C)	....	22.63	24.30	110	102	5.9
Standard Gas & Electric.....	4 (C)	14.00	20.00	16.20	No	67	6.0
West Penn Electric	7 (C)	16.15	20.81	23.10	115	113	6.2
Continental Gas & Elec. Prior	7 (C)	22.26	26.23	....	110	107	6.5
Electric Power & Light......	7 (C)	9.72	13.83	16.21	110	107	6.5

Industrials

	Div. Rate $ per Share	Earned $ per Share 1925	1926	1927	Redeemable	Recent Price	Yield %
International Harvester	7 (C)	32.11	36.74	35.71	No	142	4.9
American Smelting & Ref....	7 (C)	30.38	35.52	30.96	No	135	5.2
McCrory Stores	6 (C)	45.97	47.82	52.42	110	112	5.4
Studebaker Corp.	7 (C)	208.13	173.89	160.79	125	127	5.4
General Motors	7 (C)	101.78	167.17	182.15	125	125	5.6
Case (J. I.) Thresh. Mach...	7 (C)	21.49	29.39	38.43	No	125	5.6
U. S. Cast Iron Pipe.........	7 (C)	45.84	42.08	28.12	No	124	5.6
Endicott Johnson	7 (C)	44.57	34.77	48.10	125	125	5.6
Pillsbury Flour Mills	6½ (C)	....	*20.19	*44.90	110	115	5.6
International Silver	7 (C)	16.08	24.39	30.82	No	123	5.7
Deere & Co.	7 (C)	13.68	23.22	25.74	No	124	5.7
Brown Shoe	7 (C)	45.23	29.69	44.12	120	120	5.8
Mathieson Alkali Works	7 (C)	58.60	67.86	74.06	No	120	5.8
Associated Dry Goods 1st....	6 (C)	29.92	27.67	24.10	No	104	5.8
U. S. Industrial Alcohol......	7 (C)	33.98	16.27	36.03	125	120	5.8
Baldwin Locomotive	7 (C)	0.98	29.42	12.21	125	119	5.9
American Cyanamid	6 (C)	*20.53	*29.53	*24.24	120	100	6.0
Bethlehem Steel Corp.	7 (C)	26.64	20.84	16.32	No	117	6.0
Bush Terminal Buildings	7 (C)	‡	‡	‡	120	114	6.1
Devoe & Raynolds 1st........	7 (C)	37.29	49.70	53.23	115	114	6.1
Radio Corporation	3.5 (C)	10.31	13.36	20.02	55	55	6.3
Mid-Continent Petroleum	7 (C)	106.48	133.61	52.40	120	112	6.3
Goodrich (B. F.) Co.........	7 (C)	51.57	13.96	39.19	125	111	6.3
Central Alloy Steel..........	7 (C)	....	35.11	27.26	110	111	6.3
Bush Terminal Debentures....	7 (C)	16.01	16.81	18.88	115	110	6.4
General American Tank Car..	7 (C)	24.09	27.95	37.68	110	110	6.4
U. S. melting, Ref. Mng.....	3.5 (C)	5.97	6.25	6.28	No	53	6.6
Victor Talking Machine......	7 (C)	nil	38.44	35.00	115	106	6.6
International Paper	7 (C)	12.58	11.31	7.42	115	102	6.9
Goodyear Tire & Rubber......	7 (C)	....	11.83	18.80	110	94	7.5

C—Cumulative. N—Non-cumulative. † Cumulative up to 5%. § Earned on all pfd. stocks. * Years ended June 30. ‡ Guaranteed unconditionally by Bush Terminal Co.

EDITORIAL PAGE


TO-DAY-The Young Executive


TO-MORROW-The Business Leader.

This department is the contribution of The Magazine of Wall Street to the financial education of the nation's present and future investors and business executives.

Through this medium we extend to our subscribers an opportunity to assist us in spreading the doctrine of safe and sound investment by using these pages as a practical guide to financial success in their own homes and offices.

Another Argument for Standard Investments

FOR many years, this department has counseled the small investor and the inexperienced buyer of stocks and bonds to confine his attention to the standard investment issues. We have defined these issues as the stocks and bonds of large substantial corporations which are available on the stock and bond exchanges of the country and which provide a reasonable measure of investor protection. We have pointed out that as a group, such issues are more desirable for the inexperienced investor, because they sell at known values; because the exchanges require detailed information to be made public by the corporation of issue, and because the firms which deal in these securities are usually subject to supervision by exchange officials.

From time to time, the soundness of this policy has been questioned by readers and others who point out the obvious fact that such practice limits one's selection of investments. "There are many good security bargains to be found outside of the so-called standard investment securities," our critics have argued with us. That point we willingly concede. As a matter of fact, exceptionally interesting investment and profit opportunities have been uncovered for our readers in this wide "outside" market and presented from time to time in other sections of this publication.

But such investment excursions should be made only by those who are qualified by experience and training to properly appraise investment values. The outside market is no safe hunting ground for the small investor. To confirm this contention, comes an announcement from the Bureau of Securities of the Attorney General of the State of New York, which states that *over one billion dollars* worth of securities sold in this outside market since the war have either defaulted or become worthless. With such a staggering figure in front of us, it is no longer necessary to theorize about the advantages of "sticking to" the standard investment group.

Of this billion dollar loss it is a reasonable presumption that many millions were lost by well intentioned investors, who sought no more than a modest rate of return from their capital and believed that they had placed their funds safely.

"Intelligent Use of Present Income Will Assure Financial Independence."

Why Self-Supporting Women Need Life Insurance

The Cost of Old Age Income Policies

By FLORENCE PROVOST CLARENDON

THE teachers are off on vacation. Some have sailed to Europe for travel tours; some have gone to the Canadian Rockies and the Pacific Coast; others are taking educational courses at our Universities, while a good many have sought quiet resorts in New England and elsewhere to get complete rest and relaxation. The teachers represent a large class of self-supporting women. Some of them are "free lances" with only themselves to maintain; others, representing a goodly proportion of their number, are responsible for the partial or entire support of one or more dependents.

Teaching is a profession which puts a strain on both mental and physical energies. There are few teachers between the ages of forty and fifty who are not eagerly anticipating the date when they will retire from active duties. In some states, New York and New Jersey among them, retirement is made more attractive through pension systems under which teachers may retire at specified age limits on an annuity income payable throughout their remaining lifetime. But even under its most favorable conditions, the teachers' pension seldom averages more than fifty per cent of the normal income during active duties — frequently the percentage is much less.

A woman who has earned a comfortable income for twenty or thirty years finds it a matter not only of inconvenience, but of acute discomfort, to readjust living expenses in her later years to meet an income which has been split approximately in half through retirement from work.

Life insurance provides a means whereby the teacher may build up a thrift fund for the future, augment her pension income (if she is eligible to such annuity), and protect dependents while saving for her later years.

While school teachers in some states are protected by a pension system, the business woman and most professional women—doctors, nurses, etc.—must depend upon the results of their earlier thrift to maintain them when earning power wanes or ceases. It is true that pension systems, with sickness and disability benefits, are operative in a few large corporations, but the custom is by no means general. It therefore behooves the self-supporting woman to exercise the cardinal virtue of thrift if she seeks to maintain her independence when she retires from active work.

With their growing activity in professional and business life, women have shown an increasing interest in the benefits of life insurance as a provision for maintenance in later years, and as a protection meantime for dependents. While women have been the chief beneficiaries under policies since life insurance was commenced, it is only in comparatively recent years that their interest has been awakened in this form of investment and stimulated to the extent of applying for life insurance on their own account.

One of the most systematic methods of saving is through premiums on life insurance. The payments call for regular deposits at stated intervals, and the usual notice sent by the company prior to each due date acts as a gentle compulsion towards following the habit of thrift. The business or professional woman who is in the Heyday of Youth or on the Sunny Side of Forty, and earning a good income, is apt to view Three Score Years as something so personally remote that she postpones the building of her old age income. She may take a "flyer" in the market; make a deposit now and then in the savings bank; or perhaps purchase a Baby Bond, and allow these occasional gestures toward thrift to represent her irregular and unsystematic provision for future maintenance.

For the teacher who has the good fortune to be included in a pension plan, one of the best forms of life insurance is an Endowment Policy which will mature coincidently with her retirement. Thus, a woman now age 35 who anticipates retiring at age 65 on a pension equal to about half of her present salary could with advantage apply for a 30 Year Endowment, under which the proceeds would be payable to her at the time she retires from school work. This Endowment protects a beneficiary over a long period of years, thus providing a fund for a dependent relative in the event of the insured's death occurring before the maturity date of the policy. If she lives to enjoy the proceeds of this policy, and the fruits of her earlier saving and self-denial, she can with advantage have the proceeds payable to her as *income,* instead of in a lump sum, and thus sup-

(Please turn to page 644)

Annual Premium on a Deferred Life Annuity of $50 Monthly

Age at Issue	Income commencing at age 55	Income commencing at age 60	Income commencing at age 65
25	$141	$90	$55
30	190	118	71
35	268	160	94
40	400	225	128
45	671	339	182

NOTE: *This Deferred Annuity makes no provision for any payment after the death of the annuitant. No medical examination is required unless the Disability Benefit is included. If this Benefit is included there is a small additional premium required.*

Contract Thrift—New Rules for An Old Game

By K. A. S.

TEN years ago, living in a mid-western city, I was only well started on my professional career when the matter of saving came to assume serious importance in our household counsels. I had been married six years, had seen three lusty youngsters born into my keeping, and had a wife who was an excellent manager of our domestic establishment.

For several years we had made a budget; made it according to the best rules; so much for shelter, so much for food, so much for savings. To our chagrin it did not work. We found the so much for shelter worked, because we had to pay the rent. Likewise the so much for food. But the amount to be saved didn't get saved.

There were always some little items crowding in that we had not provided for in the budget, and when they crowded in they crowded out the savings. One year it was some new furniture, another year a baby, a third year some professional study that seemed to be imperatively needed. Some just leaked out in ways that escaped the account book. We simply were not succeeding in saving anything, though we had a model budget. We decided the trouble was that we left the saving go till last, with the result that when we came to the saving there wasn't anything left to save.

We thereupon decided on a radical change in policy. We decided to take out the savings first. To make sure we would take them out first we decided to bind ourselves to some sort of a contract with an outside party. We thought that would impress us with the importance and necessity of really saving the amount called for. At this time the country was in the war. Our decision was probably partly ascribable to the stimulus of war thrift.

What kind of a contract should we make and with whom should we make it? Until something more challenging arose, we signed up to buy a $100 bond on the partial payment plan — $10 down and $10 a month, on the first day of the month (when my salary check came in). At last we were launched on a savings program that really saved. We were not conscious of giving up anything. We were somewhat surprised to find that the saving proved to be painless. Before the first bond was paid for, we had started paying on another. Twenty dollars a month saved and somehow all the other bills were paid too.

Within a year after this method was put into operation we were invited to step into what seemed to be a real bargain in the way of a house. A confrere was moving away and wanted to dispose of his dwelling. The war-time price advance had not yet struck real estate in that community. His offer seemed quite reasonable. If we would take it, we could fix our own terms. This seemed to be an opportunity to try out our savings plan on a really significant scale. We agreed to buy the property, stipulating that the cash down payment should be small but that the periodic payments on principal, including interest, should be fairly heavy.

As we swung into the new program we found that we were more than tripling our former monthly savings and, while we could no longer say that we didn't feel the sacrifice, we could say that living in our own home and watching our debt get gradually whittled down were abundant compensation for the sacrifice. That year we saved four times as much as in any previous year; and the family never missed a square meal, nor did the children have to go barefoot. The secret lay in taking out the savings first, then in exercising ingenuity in living on the balance.

Two years later (in 1920) an opportunity, which seemed to promise much in the way of professional advancement, presented itself in another city. The belated advance in real estate had come, making possible the sale of our home at a profit of almost $3,000. With this unearned increment in hand we moved to the larger city. There we found renting almost out of the question. Places in which we could afford the rent were undesirable for the children, while those that were wholesome for the family were out of reach financially.

Buying a bungalow seemed the only wise thing to do, especially in view of the fact that we had $3,000 for a down payment, together with experience in compulsory saving to meet the monthly installments. Whereupon we bought a $10,000 bungalow, $3,000 cash down and $100 a month, including interest. This meant that about $35 of each month's payment went for interest while $65 went for savings.

As the months rolled on

Three Important Rules for "Contract Thrift"

1. *Contract with an outside party for a definite payment to be made regularly.* This has meant in our experience at various times, a contract to buy bonds, building and loan shares, and three different homes. We have found that a budget alone is not sufficient.

2. *The contract should preferably be a long-term contract.* If the contract is short there is danger of discontinuing the plan when the contract expires. We found that such was our tendency when buying bonds on the installment plan. Building and loan shares and home buying meet this point well.

3. *The contract should preferably be for a tangible object of saving.* There is more inspiration in saving for a tangible object, such as a home, than for an intangible one, such as building and loan shares or bonds. We can see results, indeed enjoy the fruits of saving while saving, when paying each month toward our home.

Building Your Future Income

Thrift

After the author's experience showed the futility of saving "what was left over," he adopted the plan of obligating himself to save as described in this article. Thus, by contracting to save, he plays a winning hand; adding to his earnings when necessary to make good on an iron-bound savings program. This thrift plan may likewise prove advantageous to others in a similar situation.

and the principal was slowly reduced, somewhat less than $35 went for interest, somewhat more than $65 for savings. It was considerably more than we had ever saved before. In fact we found ourselves saving 23% of our income, which was more than the standard budgets called for, considering our income and the size of our family. We succeeded in doing it because we always sent a check for the $100 on the first day of the month, the same day on which we deposited our salary check. Nor was this amount easily spared. Many things seemed to be needed in the new location. We just had to have a new rug for the living room, a new suite for the guest room, an up-to-date gas range.

Under our old system, we would have bought these things first and let the savings go. Under the new system, we saved first, then schemed and planned how we could get the new furnishings. The result of our scheming and planning was that I hustled around and got some extra outside work to do. *Our new thrift plan actually forced us to earn a larger income.* The extra work didn't lower the efficiency of my regular work, nor injure my health. I accomplished more because I had an incentive to do it. The extra income bought the extras for the house. Thanks to our savings plan we had the savings and the new things too. Without the savings plan we would probably have had the new things but no savings.

Our lesson was not finally learned, however, until we had suffered a relapse and had another reorganization. In 1924 another move brought us to our present location. We thought best not to buy a home at once but take a year or so to decide just where, and in what priced house, to locate. Presently we discovered that we were slipping back in our savings program. We simply would not save what our budget called for unless we had a definite obligation to meet.

The situation was partly met in January, 1925, by subscribing for 15 shares in a Building and Loan Association, payments to be made on the first Saturday of each month. We might have subscribed for more shares, except that we told ourselves we would buy a home soon. Time went on and we neither bought the home nor saved what we should. After two years of renting we were finally convinced that we must go back to our old plan.

About this time, we found a house that captured us completely. The only drawback was that it seemed beyond our means. Annual taxes, interest, insurance and depreciation amounted to about 30% of our income, which seemed too much to put into shelter. However, remembering how we had braced up to the almost impossible before, we took the plunge. A moderate down payment, with fairly heavy monthly installments to apply on interest and principal, was arranged. Again we came through, or rather are coming through, successfully.

We are now saving 24% of our income and living in a more spacious and comfortable house than we ever enjoyed before. Our home life is happier today than it has ever been, because we are conscious of enjoying a high standard of housing, together with saving a larger percentage of our income than the average. Meanwhile I have carried enough insurance to protect the family in case of premature death.

BYFI'S INVESTMENT SUGGESTIONS

These investment recommendations are now a regular feature for the guidance of BYFI readers. With the original selection of each issue, safety of principal has been a foremost consideration. Each issue is watched continuously, and will be replaced at any time it may become unfit for retention. Such changes will, of course, be brought to the reader's attention, if and when they occur.

THE FIRST $500	Approximate Price	Yield to Maturity
Savings banks accounts are recommended for deposits of regular savings, to yield	...	4 to 4½%
Shares of well managed Building & Loan Assn. are recommended on the monthly payment plan	...	5 to 6%
Endowment Insurance is a suitable medium for the investor and yields a return of	...	3 to 3½%
*Laclede Gas Light 1st and ref. 5½s, 1953	104½	5.16%
THE NEXT $1,000		
†International Mercantile Marine 1st & Coll. 6s, 1941	103	5.67%
*Montreal Tramway gen. & ref. 5s, 1955	99	5.07%
‡N. Y. Steam Corp. 6s, 1947	105	5.69%
†Western Pacific 1st 5s, 1946	99	5.09%

$5,000 FOR INVESTMENT	Approximate Price	Yield to Maturity
Cuba R. R. 1st 5s, 1952	98	5.06%
Schulco Co., Inc., Guar. Ser. "B" 6½s, 1946	102	6.30%
U. S. Rubber 1st 5s, 1947	87	6.22%
West Penn Electric $7 Pfd.	113	6.37%
U. S. Smelting & Ref. $3½ Pfd.	54	6.46%
*American Sugar Refining $7 Pfd.	107	6.50%
THE NEXT $5,000		
Seaboard Air Line 1st Cons. 6s, 1945	81	8.09%
Nassau Electric 4s, 1951	58	8.08%
Western Maryland 1st 4s, 1952	80	5.50%
Brooklyn-Man. Tr. $6 Pfd.	88	6.81%
International Paper, $7 Pfd.	102	6.90%
‡American Tel. & Tel. common ($9)	175	5.10%

* Available in $100 units. † Available in $500 units. ‡ Recommended to hold only.

The Adventures of An Amateur Realtor in New York City

How the Modest Income of an Enterprising Woman Bought a $50,000 Home

By HELEN G. RUSSELL

IT took courage, vision, prompt action, for my friend, with nothing but a modest salary, and a mother to support in the bargain, to get where she is financially today.

In the first years of the war, on personal advice obtained from THE MAGAZINE OF WALL STREET, she started buying, on a Partial Payment plan, New York Central Stock. In two years she had $1,000's worth.

On a visit to Jamaica, Long Island, in 1916, she fell in love with one of a row of brick houses, beautiful built, true Colonial in every detail. She wanted it. All she had in the world was that stock. We went to see the company. They would make concessions. The house was priced at $7,500. She need pay down but $750. They would take a mortgage on the balance. She could pay this off quarterly and the interest would be steadily decreasing.

New York Central shares, as predicted, did rise. She sold them and made her payment. I lived with her and we commuted to New York. I paid her what I should have to pay for my share in an apartment in town, $45 a month. With my rent, and denying herself, clothes, shows; by wearing a sweater under her Spring coat, she was paying off that mortgage. But the joy of ownership more than compensated her for her sacrifices.

The First Profit

The next year she rented it furnished at a splendid rental. We returned to the city. Things were easier, but still no extravagances. At the end of that second year she had an equity in the Jamaica house of $5,000. Not only that, but since these adorable houses had all been sold, she received an offer of $8,590 for her home and lot.

And then one Saturday, after she had been running away afternoons on some mysterious business, she dragged me way down and way over east between First and Second Avenues on East 50th Street. I must go through with her an old three-story and basement brown stone house. A dreadful house, the dingiest, dirtiest, smelliest, ratty kind of a place. Narrow, dark halls, steep stairs, a back yard like a dumping ground.

"I can get this place," she told me, "for $12,000—$1,200 down and easy payments."

I was aghast! "Are you clean crazy?" I asked her. Paper torn off the dirty unsightly walls, plumbing

Sutton Place—A Millionaires' Colony in New York's Eastside.

© *Wide World Photo*

smelling to Heaven, splintery floors, embedded with filth, and such a neighborhood!

I could not discourage her. She explained to me that the neighborhood had once been aristocratic, that it had fallen as low as it could and was coming back. The Vanderbilts had bought, or were buying, way east in the upper Fifties. I would live to see the day when she would have doubled her investment.

I had to give her her head, but my spirits were at zero.

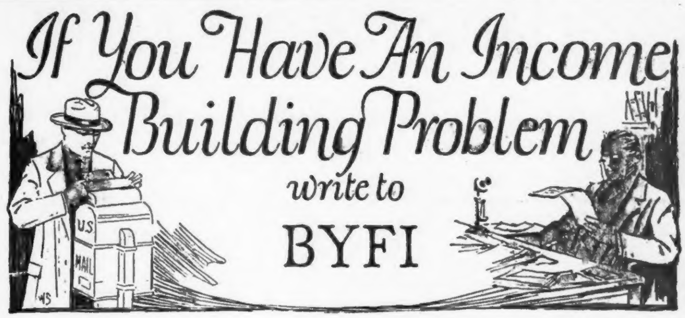
She sold her equity in the Jamaica house, paid down the $1,200 and the fee for searching the title. She got acquainted somehow with a Janitor in the neighborhood, a Frenchman who approved of this thrifty enterprise and was tremendously interested. After his hours and in between they tore off paper, painted the walls a light buff. They scraped the floors and painted them with automobile enamel. They got after the yard, planted grass seed, a border of nasturtiums, and later zinnias and asters. The plumbing was fixed, two bathrooms put in. The upper two floors were made into Parlor, Bedroom, Bath and Kitchenette. We haunted the auction rooms and furnished them and dressed them up in bright hangings, covers and cushions. She rented these two floors at a price that took care of her taxes, insurance, interest and paid off a bit of the mortgage. All this she did with a thousand dollars. She then put another thousand into the gas furnace. No ashes, no dust, no extra man to hire.

Q. E. D.—The Proof of the Pudding Is in the Eating

You all know how the Vanderbilts *have* built up Sutton Place. You know how quietly one fine family after another have come into that neighborhood over in the east Fifties, torn down old stairs, stoops, made ground-floor entrances with quaint lanterns on either side. You know of the rows of old houses torn down to make room for first-class apartment houses with their awnings and uniformed attendants.

She paid $12,000 for that house. An improvement here, an improvement there; the fireplaces cleaned, quaint furnishings—may have added another $3,000 which her tenants have more than paid for. Today she has been offered $40,000 for that place where I held my nose, eight years ago, in dismay and disgust. The Real Estators and her bank advise her to hold it for $50,000, which she can demand any time in the near future.

When I see her unusual and original home, the clothes she can afford now, the theaters, a trip; sense her feeling of security about the future, I curse my stupidity and lack of vision, for, I too, could have done, even as she.



BYFI Editor:

Will you please explain to me what the terms "ex-dividend" or "ex-rights" mean, and how is the investor able to know when he is entitled to dividends or rights or other payments on stocks. At the present time I own some Postum Company stock which cost me about 126. After declaration of the recent 100 per cent stock dividend, I figured that I would own two shares worth around 126 for each one share formerly held. But now the stock is apparently selling "ex-dividend" at a much lower price. Could I have sold the new stock before the "ex-dividend" prices were established? Otherwise, it seems to me that this dividend has not been worth much to the shareholders. Please explain the workings of stocks that go "ex-dividend" or "ex-rights."—S. T., Boston.

For the purposes of this explanation, we will consider that all payments to stockholders whether they are in form of cash, stock or rights come under the heading of a dividend. These dividends are declared on all stock which is registered on the books of the corporation as of a designated date. If, for example, a dividend of $10 is declared on all "stock of record July 1st, 1928," the corporation pays the dividend to all stockholders whose names appear on the registrar's books on that day. However, if one stockholder (we will call him Mr. Smith) should sell his stock to Mr. Brown a few days after July 1st, Mr. Smith's name would still appear on the company's books and he would get the dividend, whenever it was payable. In order to clarify this situation, the stock exchanges rule that stocks shall sell on an "ex-dividend" basis on the so-called "day of record." This means that Mr. Brown buys the stock without being entitled to the dividend. Naturally, the stock without the dividend would not be worth as much as with the dividend, so the difference is reflected in a reduced price. Theoretically the first sale on an "ex-dividend" basis would be determined by the last closing price, less the amount of the dividend. The purchaser of an "ex-dividend" stock pays less for his stock but does not get the dividend. Particularly in the case of a stock dividend, the dividend is not, as you say, "worth much to the stockholder." Frequently, the stock exchanges rule that a stock shall sell "ex-dividend" at any arbitrary date which is different than the "date of record," but the procedure works out the same way as far as buyers or sellers of the stock are concerned.

BYFI Editor:

A group of my friends are proposing to form an Investment Club somewhat along the lines of the Clubs which have frequently been described in the BYFI section of your publication. Having experienced some difficulty in deciding upon a manager for the fund, one of the prospective members proposes that we take an interest in one of the investment trusts—one of the so-called "management trusts" which buy and sell investment securities for profit as well as for dividend income. Do you consider this plan a sound one? —R. P. D., New York.

The Investment Club idea has a good deal in common with the practical operation of "management trusts" or investment trusts, except that the former operate in an informal way and on a much more limited basis. If you have any difficulty in obtaining a capable manager for the fund which members propose to raise, you could gain much the same end by taking a stock interest in a good investment trust. These trusts ordinarily do not seek as large profits or income from their investments as many investment clubs, but for the same reason their activities over a long period of time would probably be safer, at least than an Investment Club which does not have very capable management and which deals in rather speculative types of securities. Why not carry your idea a little further and divide the capital of the club over several of the investment trusts, selecting for the sake of diversity, trusts of different types which deal in different classes of securities?

Business Trend Upward

Seasonal Influences Bring About Better Trade Tone — Industrial Activity Satisfactory

STEEL

Unusual Summer Activity

THE start of the third quarter, which normally marks the beginning of summer dullness in the steel industry, has this year failed to witness the customary sharp shrinkage in demand. In view of the sustained rate of consumption throughout the first six months, the fact that the volume of buying has not shown a severe falling off with the entry of seasonal hindrances to activity is very encouraging and indicates the strong position of the industry in general. With this favorable development in regard to incoming new business it is not surprising that mill operations have been maintained at a rate considerably above 70% of capacity, whereas at this time a year ago the level had receded to a point well under 70%.

Steel production in the first six months established a new record, totaling 25 million tons, a gain of 2.9% over the first half in 1926. In spite of

(*Please turn to page* 647)

COMMODITIES*

(See footnote for Grades and Unit of Measure)

	1928 High	1928 Low	*Last
Steel (1)	$32.00	$32.00	$32.00
Pig Iron (2)	17.00	15.35	16.00
Copper (3)	0.14⅝	0.14	0.14⅝
Petroleum (4)	1.90	1.68	1.28
Coal (5)	1.85	1.52	1.85
Cotton (6)	0.23⅛	0.17⅝	0.21⅝
Wheat (7)	2.28	1.50⅛	1.71⅝
Corn (8)	1.27¾	1.06	1.23⅝
Hogs (9)	0.10⅞	0.07⅝	0.10⅞
Steers (10)	16.50	12.00	16.00
Coffee (11)	0.17⅛	0.14⅛	0.16⅛
Rubber (12)	0.41	0.17⅛	0.19⅝
Wool (13)	0.50	0.44	0.48
Tobacco (14)	0.12	0.12	0.12
Sugar (15)	0.04⅝	0.04¼	0.04¼
Sugar (16)	0.06⅛	0.05⅝	0.05¾
Paper (17)	0.03⅛	0.03¼	0.03¼
Lumber (18)	22.42	19.96	22.42

* July 14.

(1) Open hearth billets, $ per ton; (2) Basic Valley, $ per ton; (3) Electrolytic, c. per pound; (4) Mid-Continent, 36°, $ per bbl.; (5) Pittsburgh, steam mine run, $ per ton; (6) Spot, New York, c. per pound; (7) No. 2 red, New York, $ per bushel; (8) No. 2 Yellow, New York, $ per bushel; (9) Light, Chicago, c. per pound; (10) Top, Heavies, Chicago, c. per lb.; (11) Rio, No. 7, Spot, c. per lb.; (12) First Latex crepe, c. per lb.; (13) Ohio, Delaine, unwashed, c. per lb.; (14) Medium, Burley, Kentucky, c. per lb.; (15) Raw Cubas, 96° Full Duty, c. per lb.; (16) Refined, c. per lb.; (17) Newsprint per carload roll, c. per lb.; (18) Yellow pine boards, f. o. b. $ per M.

THE TREND IN MAJOR INDUSTRIES

STEEL—Present rate of steel demand is unusually heavy for this time of the year and activity is likely to be sustained throughout the summer. Steel output in first six months was a new record. Prices continue to display an irregular trend and only cooperation on part of producers can improve the situation.

METALS—Copper production in June was higher as expected in view of drain on surplus stocks, although increase is not excessive. Prices remain firm at 14¾ cents even though volume of buying is curtailed. Reduction in lead prices, while zinc markets are dull.

PETROLEUM—Gasoline consumption continues heavy, with prices strong and showing advancing tendencies; refiners' position steadily improving and further recovery is indicated. Crude oil production shows no important change in either direction.

AUTOMOBILES—Seasonal lull in automobile industry slow in developing, although downward trend in production is definitely under way. Output of number of manufacturers for first six months was at high levels, with earnings proportionate. Production of new models begins in August so that present easing off in operations is likely to be temporary.

ELECTRICAL EQUIPMENT—Volume of business is holding up well on steady buying of important consuming industries. Reconditioning of industrial plants, expansion programs of utilities and electrification projects of railroads provide large potential outlets for new equipment.

COAL—Markets are featureless as demand for both hard and soft coal remains dull. Statistically industry is showing some improvement, stocks having been reduced nearly 3 million tons as of June 1. Production of anthracite and bituminous in week ended June 30 showed an average gain of 37,500 tons over preceding week.

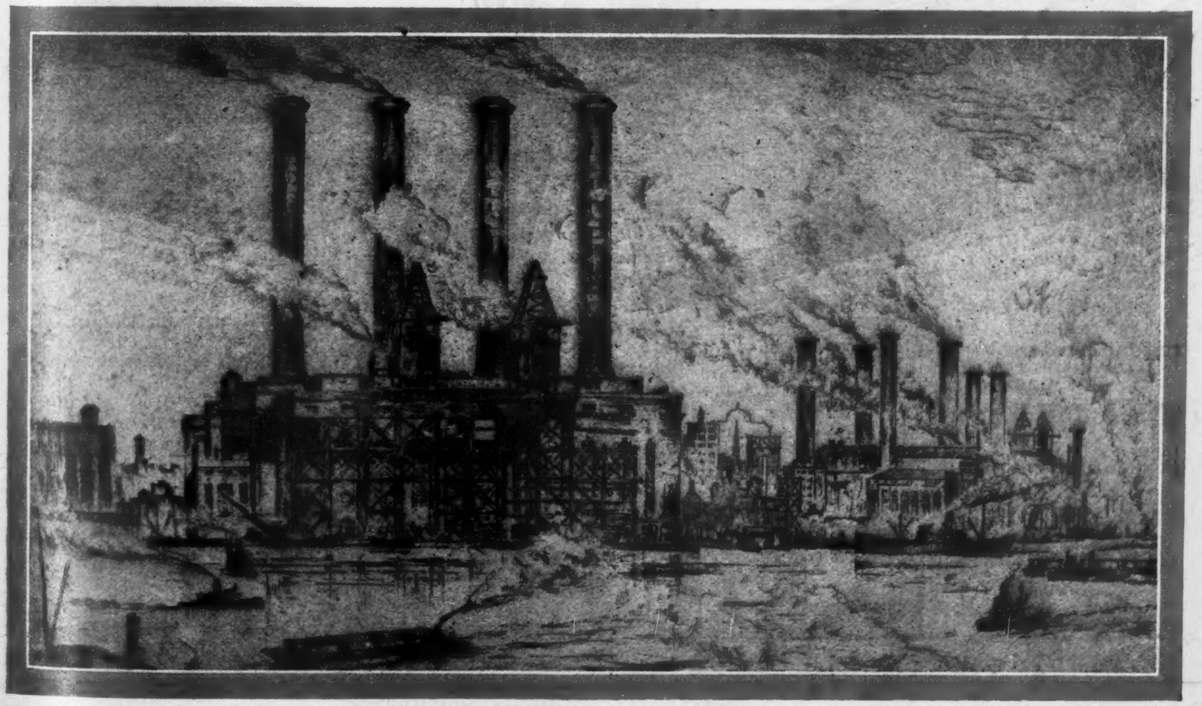
CHEMICALS—Steady growth of industrial chemical industry continues, reflecting sustained activity of important consumers. Supplies are favorably aligned with demand, thus assuring maintenance of present price levels; and earnings of leading producers are higher.

SHIPPING—Dullness prevails in ocean freight market as a result of excessive world tonnage. No nearby improvement is in sight, although favorable legislation may better conditions in 1929. In meantime earnings will probably show little change from present unsatisfactory levels.

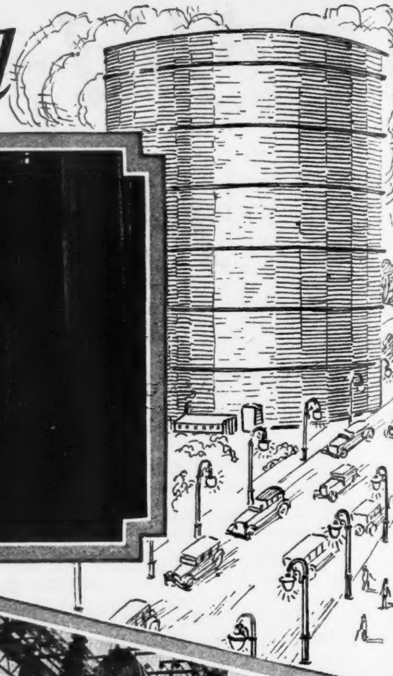
SUMMARY—Activity in a number of industries is satisfactory and business conditions as a whole are favorable. Warmer weather is stimulating retail trade, also aiding crop development. Outlook for balance of summer is encouraging.

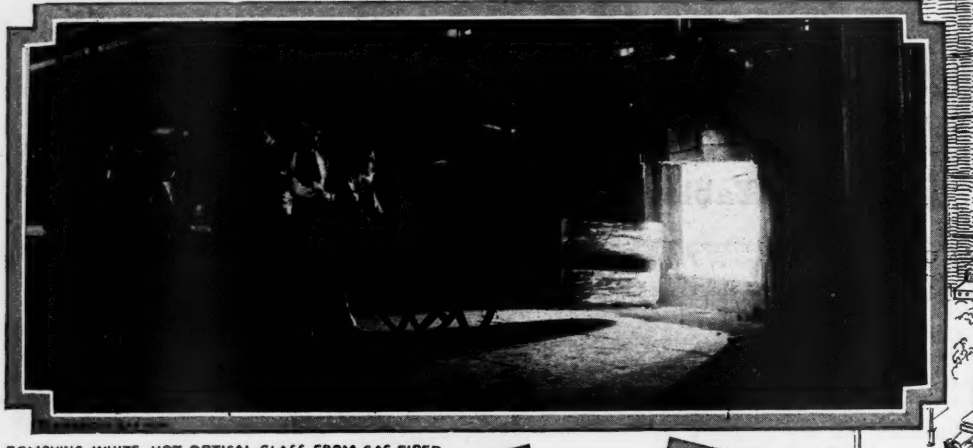
Mid-Year Review of Public Utilities

—Table of Contents—



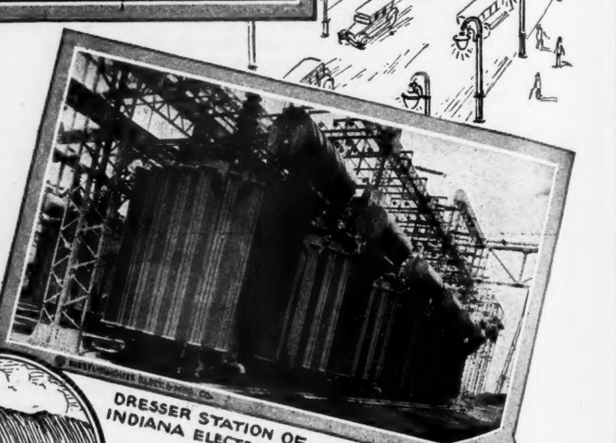
In The Utility Field





REMOVING WHITE HOT OPTICAL GLASS FROM GAS FIRED MELTING FURNACE. THIS PARTICULAR PLANT USES ONE MILLION CUBIC FEET OF GAS PER DAY.

SAUGUS SUBSTATION SOUTHERN CALIFORNIA EDISON COMPANY



DRESSER STATION OF INDIANA ELECTRIC CORP.

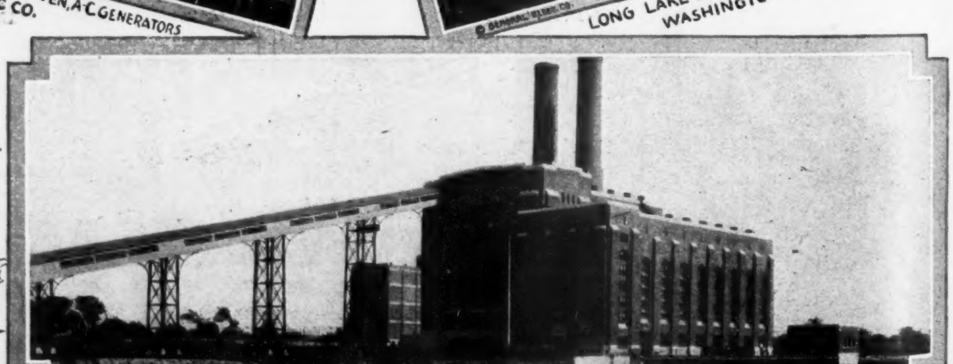
8-12,550 KV-A, WATERWHEEL DRIVEN, A.C. GENERATORS LOUISVILLE HYDRO-ELECTRIC CO.

LONG LAKE STATION OF THE WASHINGTON WATER POWER CO.

EDISON ELECTRIC ILLUMINATING CO. OF BOSTON.

CHARLES LEAVITT EDGAR STATION, WEYMOUTH, MASS.

BUILT BY STONE WEBSTER, INC.



Some Criticisms Offered by the Opponents of the Public Utility Holding Company

By WALTER E. LAGERQUIST

THE public utility industry has continued to set new records of achievement in the first half of 1928. The budgets for all classes of utilities for this year call for an expansion of plant facilities approximating a billion dollars. With a total capacity of all power producing machines in the United States of 750,000,000 horsepower and further capacity needed, the increasing importance and magnitude of the industry can be appreciated. The growth in output of gas and electricity, if the present rate of increase is maintained, will be about 10% ahead of last year.

The most interesting fact in this phenomenal growth of public utilities is that the greater part of this movement is evolving about the holding company. Outside of ten of the largest urban centers, thirty public utility holding companies probably provide the larger part of the utility service of the country. There were some over 100 central power stations at the end of 1927 which provided about 90% of the total output but the companies operating these plants are practically all subsidiary companies of holding companies. Even more significant in the progress of this concentration is the control of nearly 50% of the nation's central power output by seven holding companies.

This development is probably best reflected in the volume of financing. One-third of all corporate financing since 1920 has been by the public utility industry and each year has experienced a new high-water mark for the industry. The public utility financing accounted for more than 40% of all corporate financing in 1927. The financing in 1927 was divided as follows:

	Volume	Percentage
Long term bonds......	$1,209,439,510	58.30%
Short term bonds......	82,427,800	3.97%
Stocks	782,607,178	37.23%
	$2,074,474,488	100.00%

The most significant thing in this financing is that 69.5% was for new capital, indicating that the expansion of the industry is greater than most people outside of the industry realize. Attention should also be called to the increase in the financing through stock issues. Financing through this source has increased from approximately $55,000,000 in 1920 or 14% to over 37% of the total or over $782,000,000 in 1927. The preliminary offering figures for 1928 for the first five months amount to $810,000,000 compared to $746,000,000 for 1927 for American utilities. Although the rate of normal growth must eventually take place, the increase in financing in the past ten years together with the new uses and the continued economies in production thus inducing larger uses of electric current, would indicate that the present rate of growth must continue for several years. It further indicates that the expansion of the holding company must be effectively functioning.

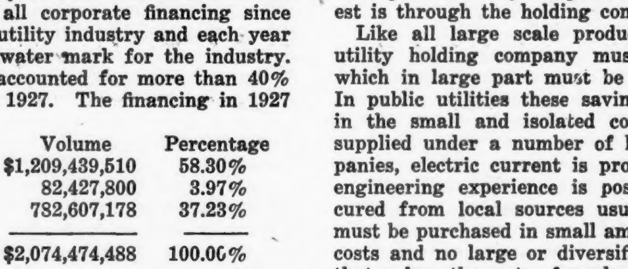
What then is the basis of the criticism that we hear of this form of organization? It would seem worth while to examine (as far as a brief allotment of space will allow) one or two of these claims against the holding company in that it has been so successful.

The Controlling Forces There are two fundamental phases of the utility problem which are distinct yet are closely interlocked and both essential to the welfare of the industry and the public. While the public utility holding company can well be defined as a form of large scale production, any real defense of the holding company must be defended on its being the most adaptable form for the control of large scale production in public utilities.

Though certain adjacent units under one control within the same state might frequently be consolidated into a single company, where a holding company controls a number of companies in different states it is of advantage to the public that the local operating unit be maintained as a separate corporate entity. It simplifies both the control of services and rates by the state commissions as well as any adjustments made necessary to local conditions. Therefore, the best method of securing the advantages of large scale production by the public utility for the public's interest is through the holding company.

Like all large scale production enterprises the public utility holding company must render certain economies which in large part must be passed on to the consumer. In public utilities these savings will be most pronounced in the small and isolated communities where service is supplied under a number of handicaps. With these companies, electric current is produced at high costs, limited engineering experience is possessed, capital must be secured from local sources usually at high costs, supplies must be purchased in small amounts consequently at higher costs and no large or diversified contracts can be secured that reduce the costs of production and distribution. Where it is practical to inter-connect this company with a large unit conspicuous savings can be procured. But even where direct inter-connection is not possible considerable savings can be secured where sound supervision is given through a holding company.

For fifty years all forms of industry which have required large capital outlays have persistently moved toward larger and larger units of operation and control. It is the only possible method of organization which can survive where large capital expenditures and specialization are required. Incidentally, it might be suggested that large scale production more than any other single economic force has made possible the high living standard of this country. At times this development has been arrested but there has always been a reversion to it though the form may have been somewhat altered. Regardless of whether the cause of the check to its development has resulted from a business depression, political agitation, legislation or faults in the set-up of the industry's organization itself, the movement has been quietly but effectively taken up and each time has



enlarged the scope of its control and operations. One need but superficially examine the requirements of modern urban life and of industry and commerce to see that the old small unit of production in the utility industry could not now meet the demands placed upon it to say nothing of the future. This movement in industry, particularly in public utilities, is a matter of national economy. With rare exceptions isolated electric utility plants are now an *economic mistake.* Where an independent company continues today to operate in the average size community accessible to a trunk line system, it is, in most cases at least, the part of economy to place the padlock on the doors of its plant.

The antagonism against large scale production seems with some people to have developed almost into a fetish. It is, therefore, not surprising to find in these same people the existence of a fear of the underlying causes and results of these consolidations prevailing against the rapid progress in public utility consolidations of the past few years. The basic economic principles which are the driving force back of this movement are common to all industries and an examination of these forces and their effect on industry must be made before any approval or condemnation of this form of organization is justified.

Too frequently, the knowledge of a particular abuse in one company develops a prejudice which colors the consideration of other cases and befogs the real and basic issues. But, again this form of thinking is not peculiar to this technical and complicated industry.

A very hopeful sign, however, in the discussions on the public utility holding companies in the past two years is the lack of evidence in the evidence presented by the opposition against the basic principles upon which this modern organization is built. After all is said and done, it is the economic soundness of any project that determines whether it will continue to live. Unsound opposition may deter its development temporarily but this resistance will eventually fall from its own unstability. *Such opposition, however, has been the common experience in the installation of every great and fundamental change in commerce and industry for the past one hundred and fifty years.*

The Public Utility Rates

"Our rates are kept at a higher level and the public as a consequence is leached to support the holding company. It must, therefore, be considered an expensive extravagance," again states the opposer. If this claim is true it would in itself be a serious indictment against the public utility holding company. Again what are the facts in the case?

The rates charged the public for service are made by the operating company and not the holding company. If the rates for service in a particular community are too high, the state public utility commission is negligent. The holding company receives its income from its stock holdings in the operating company and if the return received is too high the power to reduce it is in the hands of the utility commission. Furthermore, any valuation placed upon the properties which are used as the basis for the rates charged for service, is again not made by the holding company but by the state public utility commission.

The statement is made by one well known writer that: "Under the terrific involution of accounts it may become practically impossible to allocate accounts and to determine earnings as related to investment. The holding company is exposed to the temptation to exploit its own subsidiaries, taking its own profit by undue enhancement of the operating expenses of the local concern." The first difficulty maintained may exist in any large operating company. It is a problem of the mechanics of administration which any able administration should be able to standardize. The real difficulty which this author has not mentioned is a fundamental one and is one which will not be adjusted until the United States Supreme Court has given us more definite rules of interpretation on the solution of the problem. We refer to the old problem of valuation which is basic to the rates of service charges. But the solution of this problem is in no way dependent upon the holding company or affected by it, if properly administered. If a surcharging of the expense accounts is practiced by the holding company then either the public utility commission is again negligent of its duty or the regulatory laws governing operating companies in the state are inadequate. If the latter is the case then the legislatures of the state should awaken to their obligations to the public. With a monopolistic right granted by the public to the public utility, fair charges and fair rates are a just compensation.

A public utility holding company, if it has any excuse for its existence, should derive its compensation in effecting operating, administration and financial economies.

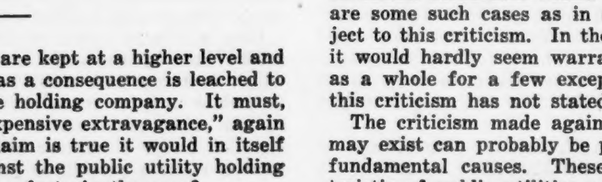
There are opposers to the public utility holding company who claim that all of the added profits accruing because of the holding company should revert to the public. Eliminating any question of equity, is the claim economically sound? Outside of the largest urban centers, the isolated plant could not have the same supervision of management, the elimination of certain duplicate investments, the savings in securing capital, etc. But, states the opposer: "All this is made possible by the fact that the industry is functioning as a monopoly and the rewards for such service do not therefore apply as in a competitive industry." Without these advantages the isolated plant would have both larger operating and carrying costs which would have to be passed on to the public. The monopolistic rights possessed by the average-sized isolated plant can not secure these advantages. Furthermore, neither managerial ability nor capital will be attracted where fair compensation is not awarded. The answer is self-evident.

Capitalization Structures

Rather severe criticism has been made in certain quarters as to the unwarranted complexity and top-heavy capitalization structures found in holding companies. There are some such cases as in every industry which are subject to this criticism. In the aggregate they are small and it would hardly seem warranted to condemn the industry as a whole for a few exceptions. Furthermore, much of this criticism has not stated all of the facts in the case.

The criticism made against over-capitalization where it may exist can probably be placed in one of the groups of fundamental causes. These are not particularly characteristic of public utilities and will be found in a varying degree in the experience of every other industry. Two of them are common to a new and developing industry and are chiefly due to the fact that there is no experience which can be drawn upon for guidance. They are both transitory and while a management may countenance them for a period, they are, over the long period, equally objectionable to the public utility management. The latter knows that the confidence of the public cannot be retained under these conditions.

Where an industry has grown as rapidly and so many consolidations have taken place as in the public utility industry, errors in judgment were to be expected. The evidence of such errors, however, have been less than for any industry with which we have had to deal. In every new industry a certain amount of experience must be obtained regardless of how able a management may be before the factors which determine the equilibrium of an industry are fully understood. This period of youth in industry is always a period of experimentation. Time alone is the essential in securing the experience that is the corrective and adjustive force in industry to which managements must give continual heed. In light of its limited life, one can but marvel at the sweeping strides which the industry has made. It is not, then, surprising that even with the



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Airplane view of the Acme plant of Toledo Edison Company, an important public utility subsidiary of Cities Service Company.

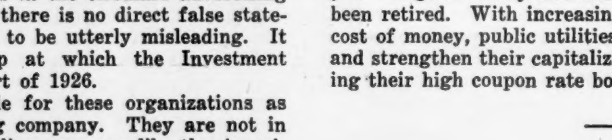
limited understanding of its technical problems on the part of the public that there is an increasing public confidence in this youthful Achilles of modern industry.

Again where an industry has developed as rapidly as the public utility industry has since 1900 it was to be expected that a certain amount of over-optimism would arise on the part of some promoters. High prices were at times paid for the properties though this is more often open to dispute when it is seen how quickly the new developments subsequently have justified the price made. They proved not to be over-discounted. There has been in a few cases, extremely dishonest juggling in the sale of a public utility but this has been the rare exception. These experiences were chiefly confined, as is now generally known, to certain street railway promotions. This form of promotion, however, has not been repeated in the subsequent history of public utilities. But what industry in its early development has not had similar experiences? While there are a few isolated cases of these early promotions which despite receiverships are still encumbered with a rather heavy capitalization structure, the greater part of these structures were corrected through subsequent receiverships or the growth in earnings now fully justify the existing capitalization. While no one can countenance such practices or endeavor to establish an alibi for them, is there again any justification in condemning the whole case of the holding company because of certain errors of judgment or a few cases of wilful abuse?

There has been a more recent type of development in the holding company, as represented by a few promotions which is subject to considerable criticism. Some of these developments are undoubtedly due to overly-optimistic promoters but others are sponsored for profit with a disregard of public interests. One cannot, however, generalize, for each company must be judged on its own merits. The promoters of these organizations have gathered together small and isolated companies over a widely scattered area. High prices have been paid for a number of small properties and these companies have been immediately over-capitalized and are not in a position to provide for the future requirements of the communities served. There has also been the lack of candid statement of affairs in the circulars advertising these issues for sale. While there is no direct false statement, they are so worded as to be utterly misleading. It was undoubtedly this group at which the Investment Bankers aimed in their report of 1926.

Little defense can be made for these organizations as fulfilling a need as a holding company. They are not in any way comparable to a holding company like the American Light & Traction which carefully selected its properties and followed conservative practices in management and financing or to such a company as the Consolidated Gas Company, a company built out of a number of companies in and around a great urban center. To place the former class of organizations in the latter is again a confusion of the issue or an endeavor to capitalize the principle of the holding company for personal profits at the sacrifice of public interest and no conservative banker approves of them. But these organizations are a mere bagatelle both in number and investment represented when compared to the aggregate industry.

The propagandist and the politician in the urge of establishing their case often overlook a very fundamental condition which may have affected the problem of capitalization. A public utility, unlike an industrial enterprise, when it must make provision for an immediate increase in service must for example in constructing power facilities build in advance of its needs for a great many years. This requires fixed capital expenditures from which the company will not receive the full benefits for a number of years, but over the long period this is the cheapest form of construction. In the meantime, this additional capital investment must be carried and if measured only in terms of immediate earnings on the completion of the project over-capitalization sometimes can be said to exist. In relieving this situation the holding company has played a larger part than is generally realized by the public. By bringing together a number of properties, the construction costs can be more widely distributed and the burden be more quickly absorbed, with a corresponding reduction in carrying charges. Without the holding company which made this possible, much of the construction, outside of a few of the largest urban centers, that have made lower costs possible, lower charges to the public would have been impossible. As time goes on this advantage made possible by the holding company is of increasing importance to the public.



An awkward capitalization set-up which a public utility holding company has often been forced to accept in order to secure the control of a company or group of companies has likewise been criticized often. Conservative management would have never created a capital structure of this sort and would not have taken over the properties under these conditions unless they were forced to do so.

Even in the most conservatively developed public utility consolidations, it has been necessary to take over operating companies and holding companies and allow their capitalization structures to continue as they were for a number of years. In many cases, these companies possessed franchises which it was not desirable to disturb at the time of the change in control but more often the outstanding bonds could not be retired until maturity. Fortunately, the broader view that now is being taken concerning franchises will make adjustments in this respect much simpler in the future. With the rapid development that has taken place especially in two different periods since 1900, the combined capitalization of the holding company and its subsidiaries has not unfrequently been somewhat awkward. Public utility managements, however, realize better than any one else the disadvantage of continuing such a condition longer than is essential. It is too costly a burden for the management to want to continue for their own advantage.

The stronger public utilities which have not already corrected this situation are now in the process of simplifying their capitalization structures. These adjustments could not have come at a more opportune time. Over the past four years a great many millions of the issues described have been retired. With increasing earnings and the decreasing cost of money, public utilities are not only able to simplify and strengthen their capitalization structures but are reducing their high coupon rate bonds.

Holding Company Legislation

There has been increasing agitation in certain quarters for federal legislation on public utility holding companies. The advocates for this legislation express the fear that unless some form of federal control is exercised over the holding company that the holding company will defeat the protection which the public now has under the existing state laws. With the economic consequences which may grow out of such far-reaching legislation there is need for the public to proceed with a good deal of caution before it lends its support in demanding such legislation. In considering any legislation which endeavors to regulate the economics of an industry, it is obvious that a sufficient understanding must be had of the fundamentals controlling the industry or it may prove a boomerang. *In brief this means that unless regulatory measures work in unison with the sound economies controlling the industry they neither protect the public nor are equitable to the industry.*

The second fundamental question which arises in the consideration of holding company legislation is whether utility legislation is and should be subject to the federal or state governments. Certain state regulatory measures already exist and the question must necessarily first be raisel as to whether the existing (*Please turn to page 600*)

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STANDARD SIX COACH

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Willys-Knight Sixes from $995 to $2695, in the Standard Six, Special Six and Great Six divisions. Prices f. o. b. Toledo, Ohio, and specifications subject to change without notice. Willys-Overland, Inc., Toledo, Ohio. Willys-Overland Sales Co., Ltd., Toronto, Canada.

WILLYS-KNIGHT SIX

The Gas Industry Turned Salesman

By CHESTER J. EATON

Vice-President, Middle West Utilities Company

THE gas industry, for so long a sleeping giant, is awakening to the consciousness of its latent strength and of its tremendous possibility for expansion.

Manufacture and engineering have been stressed in the development of the gas business in the past. Efficiency and economy of internal operation have been the foremost consideration of gas men for years. Now, the industry has reached a stage of manufacturing development where stagnation would threaten unless increased consumption by new merchandising methods were to give outlet for its highly developed internal growth. The consumption of gas must be extended in order to justify further expansion of manufacturing facilities, and to challenge engineering invention to find new processes for making and using the fuel.

Increased Importance of Merchandising

The solution to this problem of ingrowth has been found in the increasing importance of merchandising in the industry. The industry has in the past been accused of over-conservatism, of lack of vision, and of an inability to grasp new opportunities. It is apparent, however, that the farseeing among the leaders are fully aware of the fact that the industry is on the threshold of a new era, and that they realize that policies and methods must be shaped to meet this situation. As a consequence, the past several years have witnessed a marked merchandise movement among utilities supplying gas. This trend is manifest in the increasing gas consumption in nearly every phase of activity for which fuel is needed. Gas has found its way into factories, homes, hotels, and other establishments in a number of comparatively new forms.

In the domestic fields, cooking will, of course, continue as the basis of the gas demand. Rapidly, however, new uses are being added to gas consumption in homes. House heating is, perhaps, the most outstanding of these. Great opportunities also dwell in the possibilities of gas consumption in water-heating, refrigeration, laundering and incineration. Furnace tending is one household task that has not yet been thoroughly conquered, but the gas-heated house is offering a welcome solution of this problem.

And in industry the gas consumption possibilities are almost inexhaustible. Enameling, burning brick, annealing, forging, metal cleaning and drying, die casting and innumerable other processes are increasing the use of gas among large industries.

Among industrial and commercial uses the bakery is perhaps the most familiar. There is also a fertile field of development in glassware and pottery industries. Laundries use gas profitably. Hotels are likely prospects. The newspaper linotype machine is a possibility which is small but worthy of development. The manufacture of machinery bulks large in possibilities of gas consumption as, indeed, do any industrial processes requiring heat.

Feeding Small Communities

Another source of a great development is the present trend toward gas service for small communities. The construction of high pressure gas mains capable of serving a number of small towns and fed from a central gas manufacturing plant is bringing this service to small communities which could not have supported gas plants alone. This same development is also making gas cheaper in many small communities which already had gas service, by broadening the market of a single gas plant. This taps a field which contains tremendous possibilities of development and in which saturation is very distant.

Gas companies have been wisely looking to their own organizations for the raw materials for their merchandising department personnel. Many companies which have been actively merchandising for some time have found that the problem is solving itself in that the merchandising department is developing capable men with combined utility and merchandising experience. This dual background is necessary for the ideal gas merchant.

Men of this type are informing themselves thoroughly on the possible applications of gas to industrial and domestic uses. They are equipping themselves with a full knowledge of the advantages their product has to offer, and armed with this confidence are persuading the prospect to adopt gas in these operations.

The gas merchant is familiarizing himself with the undisputed advantages of gas, and impressing them clearly upon the mind of the consumer. He is pointing out to industry the conspicuous advantage of saving fuel storage space and labor which is now used in handling other forms of fuel. He is emphasizing the advantages of eliminating smoke, soot and odors. He is stressing its convenient availability and immediate delivery, its quicker heating qualities, its more perfect regulation, its wholesome effects on labor efficiency, and its simplicity of control, the uninterrupted supply and uniform quality and absence of price fluctuations.

The gas industry has much to learn from that most successful of modern merchandisers, the chain store. Group operation of utilities involving numerous retail stores presents problems very similar to those of the chain store organization. While the utility salesman must keep certain company policies always in mind, it is nevertheless true that methods which have proven so successful in the case of the chain stores can certainly be applied, perhaps with modifications and exceptions, to the business of merchandising gas.

Five Important Factors

The head of a very successful chain store company recently gave the following five factors as being essential to the success of every store whether it be a unit of a chain or a single, independent store:

1. Scientific training of managers and other personnel.
2. Intelligent buying.
3. Frequent turnover.
4. Suitable location.
5. Adjustment to its markets; finding and serving the public needs.

Personnel training takes first place as a contributor to a store's success. The sec-

(*Please turn to page 629*)

Public Service Corporation of New Jersey

Controlling Through Stock Ownership

Public Service Electric and Gas Company

Public Service Coordinated Transport

NATURE AND EXTENT OF OPERATIONS

THE operating subsidiaries of the Corporation supply electric, gas, and local transportation service—by street car, motor bus and ferry—in a territory stretching across New Jersey from the Hudson to the Delaware that has a population of approximately 3,000,000, or five out of every six of the state's people and carries on ninety per cent. of the state's manufacture.

BUSINESS

For the year ending May 31, 1928.

Sales of electric current amounted to........1,283,952,114 kilowatt hours

This was an increase of 113,628,526 *kilowatt hours over the amount sold for the year ending May* 31, 1927.

Sales of gas amounted to....................23,102,879,537 cubic feet

This was an increase of 1,200,493,750 *cubic feet over the amount sold for the year ending May* 31, 1927.

Passengers carried on cars and motor buses totalled...........636,329,207

This was an increase of 24,362,817 *passengers over the number carried for the year ending May* 31, 1927.

REVENUE

For the year ending May 31, 1928

Operating revenues of subsidiary companies amounted to....$119,220,663

This was an increase of $9,508,034 *over the operating revenues for the year ending May* 31, 1927.

BALANCE AVAILABLE FOR DIVIDENDS

For the year ending May 31, 1928.

Balance available for dividends was $16,867,105

Thus was an increase of $4,257,239 *over the balance available for dividends for the year ending May* 31, 1927

The annual report of Public Service Corporation of New Jersey is now ready for distribution.

A copy will be mailed to you on request

PUBLIC SERVICE CORPORATION OF NEW JERSEY

Newark, New Jersey

Scientific Rate Making with Special Reference to the Rate of Return Allowed on the Properties

By JOHN BAUER

WHAT is scientifically the sound basis of public utility rate-making? What elements or factors should be included in the rates to be paid by the consumers? How should the quantity of each factor be determined?

These are questions of fundamental policy that affect more individuals, as well as larger and more diversified financial interests, than any other economic problem before the country today. They are not questions which can be intelligently discussed by the ordinary man of the street. They require expert knowledge of wide range and clear grasp of public policy and future business requirements.

Three Groups Affected

As to the industries directly affected, these questions apply particularly to the railroads, to electric light and power properties, gas plants, street railways, buses, waterworks, telegraphs and telephones. As to groups of individuals, they concern first of all the *consumers* of these industries, and thus include practically everybody. Second, they affect, as a separate group, the *management* of the properties—officers, technicians and all employees. And, third, they reach the *investors* in the securities issued to furnish the capital necessary for the public service.

These three groups usually appear as mutually antagonistic in rate cases; especially the consumers are placed in conflict with the management and the investors. This divergence of interest, however, is due entirely to the fact that rates are fixed, mostly, not as a matter of policy, but rather from the standpoint of *immediate* considerations. At any point of time, there might be conflict of interest all around. At long range, however, the interests of all groups are identical; all require square dealing; all are best served by sound, fundamental policy rather than by temporary expediency.

Long Run Policy

The questions of practical rate-making presented above must thus be answered from the standpoint of ultimate policy. Let us consider briefly the questions raised, and then elaborate somewhat upon one special point which hardly ever receives the consideration it deserves.

First of all, a scientific system of rate-making must establish definite principles and policies; must define precisely the rights and obligations of the parties concerned; and must provide working machinery by which necessary facts are constantly supplied and by which rate-making can be readily administered. There can hardly be any difference of opinion as to the soundness of these standards.

Second, as to the elements or factors to be included in the rates—they necessarily consist of: (1) operating expenses, (2) taxes, and (3) return on the property used in the public service. As to the proper inclusion of these items, there is no dispute.

Third, as to quantity to be fixed for each of the elements, we have the question which involves practically all the difficulties of regulation, and which must be answered properly if regulation is not to be swept aside and superseded by wholesale public ownership and operation. This applies, however, only to the third element. Operating expenses and taxes have been provided for upon a satisfactory basis. They have been based definitely upon cost, and have been effectively administered through the accounts of the companies.

Undefined and Fluctuating Quantities

The dissatisfaction with existing rate-making is due principally to the third element: *the return on the property.* This is an undefined and fluctuating quantity, with no precise measurement of the fluctuation. It is supposed to be based upon the "fair value" of the property; but the amount of the "fair value" is not a sum fixed either as to principle or as to facts; nor is the *rate of return* a fixed percentage. The "fair value" and the *rate* to be applied, are both undefined and variable, so the ultimate amount of the return dependent upon both factors is uncertain and variable. The problem of establishing scientific rate-making thus consists primarily of making definite and administerable both the "fair value" and the rate of return.

The great bulk of the rate litigation and confusion have centered around the determination of "fair value." There has been endless argument as to principles and controversy as to facts. But there has been comparatively little concern with the fixing of the rate of return. Both items are of equal importance; while the one has been the occasion of incessant dispute, the other has been treated somewhat casually.

This is rather a curious inconsistency in rate-making psychology. A difference of 15% in valuation is fought at every conceivable point, and the battle rages along the entire line of principles and facts. But whether six or seven per cent is a fair rate of return—a difference of about 15%—is determined quite incidentally, with little ragard to fundamentals or concrete proof of facts. Yet, the two variations have exactly the same influence upon the interested groups.

As to valuation, the major question has been, whether or to what extent "fair value" consists of the *actual cost* or *reproduction cost* of the properties used for service; but no less controversial has been the secondary question as to the amount to be fixed, the actual cost or reproduction cost, for depreciation. In regard to primary principle, we may state, without extended analysis, that intelligent and impartial opinion has been tending toward the view that the amount of "fair value" should be determined by

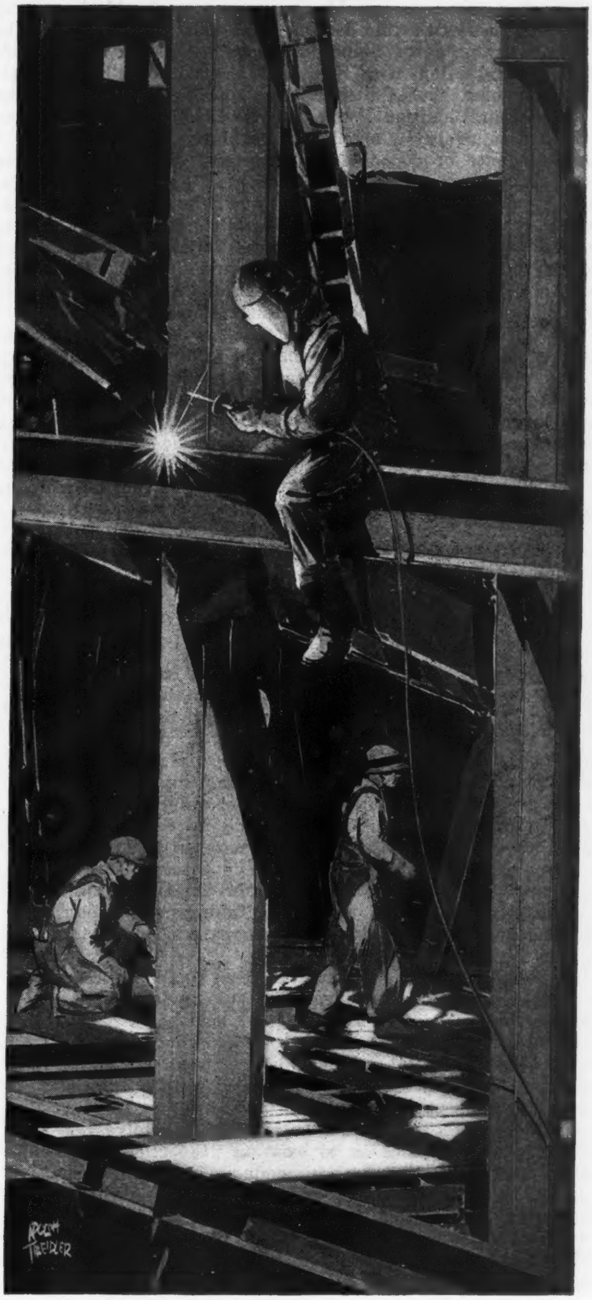
THIS admittedly controversial subject is well worth bringing to the attention of those interested in public utility developments. What does the industry think of the stand taken by the author? We should be pleased to publish carefully thought out answers to the argument presented.

Silenced!

YESTERDAY, America's sky scrapers stormed into the air to the deafening clatter of the riveting hammer.

To-morrow, this ear-splitting racket will be silenced. Silently, swiftly, easily, and at a considerable saving in cost, our great new structures will arise—welded by electricity.

Electric welding! An electric arc, guided by expert hands, knits metal together with joints as strong as the metal itself. Already it is written in the book of progress that construction's drums shall be silenced.



General Electric, which makes complete equipment for electric arc welding, makes also the huge electric ovens that bake a city's bread, as well as the household appliances and MAZDA Lamps with which daily use has made you familiar. The G-E monogram on all these products assures you that they are electrically correct and dependable.

GENERAL ELECTRIC

the cost of the properties, less depreciation, with recognition, however, that reasonable adjustments should be made in the interest of fair dealing as to existing properties. For every property, a definite amount should be fixed as an initial valuation, with reasonable regard for all the facts; the amount should then be kept unchanged; thereafter only actual additional investments should be added; and the entire property should be regularly maintained through adequate provisions for upkeep and depreciation.

The analysis supporting such an investment basis of valuation is twofold. First, the amount would be definite; it would be shown constantly by the accounts. It would set forth exactly the rights of the investors and the public, and could thus be readily and promptly used for all rate adjustments, without dispute and litigation. It would be capable of exact and convenient administration.

In the second place, this basis would furnish constant financial stability both against rising and falling prices, as well as against all changes in operating conditions. This consideration is of controlling importance, particularly because a large proportion—on the average about 75%—of the actual cash investment in utility properties is made through bonds and other fixed-return securities, and only 25% in common stock, capable of getting a variable return. In adopting a long-run basis of valuation, the typical financial structure of public utility companies must be considered in conjunction with the constant fluctuation of prices upward and downward.

Reproduction Cost Unstable

Suppose that reproduction cost less depreciation were taken definitely as the basis of "fair value," and assume also that wide fluctuations in prices take place. Then, in any given case, with 75% of the actual investment made through bonds, imposing fixed charges upon the properties, the amount of the net value which, on the reproduction cost basis, would stand as the common stock equity or basis of return, would increase or decrease four times as fast as the rise or fall in prices. During rising prices this would bring wholly unwarranted profits to the common stockholders, but during falling prices would impair the financial stability of the companies, and would ultimately produce insolvency.

With unstable prices and with the fixed financial structure of the companies, reproduction cost less depreciation would thus be financially unsound, and would be extremely difficult of administration. Upon both administrative and financial grounds, actual cost less depreciation—the actual investment—is undoubtedly the sound and proper basis of valuation as a long run proposition, provided that fair adjustments are made for initial valuations to resolve reasonably the uncertainties as to existing properties. This would assure the investors both in bonds and common stocks the actual returns that they expected, and would thus readily attract all the new capital needed for improvements and extensions.

This is the only basis of valuation which at all times would furnish a definite sum; could be readily applied; would be fair to the consumers and investors; would establish certainty, and would assure full financial stability. This alone would furnish the definiteness and certainty of return required to make public utility securities first-class investments. It would remove all speculative features, and, especially, would eliminate the grave "regulatory" risks now attached to public utility bonds as well as common stock.

These requirements for scientific regulation have been considered and are widely understood among economists, so far as basic "fair value" is concerned. But they have not been equally regarded from the standpoint of the *rate* of return. The same logic, however, which is concerned with administrative standards and financial soundness as to valuation, extends also to the rate of return. Equally definite measurement is necessary to define the rights of the investors and the public, and to effect readiness of application to rate-making. Likewise, equal stability is needed; variation upward or downward has the same cumulative effect upon financial stability as fluctuation in the basic "fair value."

What, therefore, is the scientific rate of return? As a long run proposition, it is the rate that investors actually demand and get from time to time as they contribute capital to the utilities. This is as definite a fact as the amount of the investment itself; it can be exactly shown in the accounts and can be assured through definite rate-making machinery. It provides for satisfactory administration and for financial soundness.

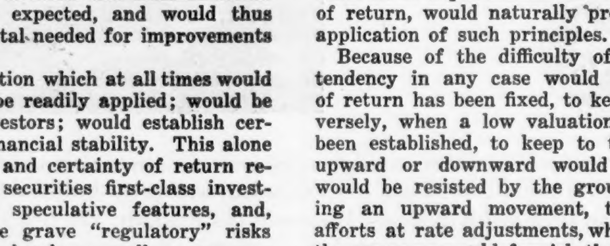
But what would be the effect of an indefinite rate of return,—one which varies with changing conditions and applies to the entire property notwithstanding lower or higher actual rates assumed by a company in the issuance of its securities? It is an economic fact that high interest rates generally go with rising prices, and that low interest rates go with falling prices (not, however, necessarily high rates with high prices or low rates with low prices). Suppose, then, investments are made at low prices, also at low interest rates on bonds issued for 75% of the total investment. Then assume that prices rise 25%, and, at the peak, that the interest rate is also 25% higher. Upon the reproduction cost basis of "fair value" and the current rate of interest, there would be a 50% increase in money return on the whole investment, and an eight-fold increase as applied to the common stock (since the bonds would be limited to the interest fixed in the contract). If, however, the course is reversed, a 25% fall in prices as well as in the interest rate, it would not only completely wipe out the return on the stock, but would leave the company in hopeless insolvency.

Variable Rate of Return Unsound

There are, thus, two variable factors operating simultaneously. Sometimes they work cumulatively; sometimes in opposite directions; sometimes one and not the other. The effect of either variable is four-fold cumulative upon the common stock, and thus inevitably influences the standing of all the securities,—bonds as well as common stock. These consequences cannot be avoided if "fair" value were to be consistently and regularly based upon reproduction cost less depreciation and if the rate of return were to be determined at each point according to the then existing market conditions. In actual regulation, however, there has been no definite adoption of policy, nor any regular and consistent application of policy to facts. The very difficulty of determining from time to time the facts as to reproduction cost and as to the prevailing rate of return, would naturally prevent regular and consistent application of such principles.

Because of the difficulty of determining the facts, the tendency in any case would be, when valuation or rate of return has been fixed, to keep to the high figures. Conversely, when a low valuation or low rate of return has been established, to keep to the low level. Adjustments upward or downward would be difficult to make, and would be resisted by the group adversely affected. During an upward movement, the public would resist all afforts at rate adjustments, while during a downward course the company would furnish the resistance. In either direction, the commission would stand between the two opposing groups and would hardly undertake any adjustments, even though needed, unless forced to act by one side or the other.

For example, during the period of 1919 to 1923, approximately, the general market rates of interest were high and the rate of return then recognized for rate-making was commonly placed at 8%. This rate has



been held to strenuously by the companies, and is now urged by some of the regulatory bodies, notwithstanding the fact that the rates have since fallen greatly and have stood during the past year at about the lowest point since 1900. Naturally, the public demands a reduction, and companies argue for a constitutional right of 8%.

From a long-term standpoint it is inconceivable that a high rate of return established during one period will stand against low market rates of another period, or that high property costs of one period will stand against lower reproduction costs of a later time, unless the fundamental policies and methods have been definitely fixed and are regularly provided for through administrative machinery consistently employed in rate-making.

Both "fair value" and the rate of return must be considered from a long-term standpoint. If they are not thus adopted into fixed policy and effective machinery of rate making, then we shall flounder along with present indefinite and cumbersome policies and methods, practically destroy rate regulation, and subject the entire industry, all the investors and the vast consuming public, to the financial instability and the disorganization that inevitably follows such an unscientific method of handling fundamental public policy.

Fixed Return Securities That we are not talking abstractions, but are dealing with huge and paramount realities, may be shown by a brief summary of railroad and public utilities financing during the period of 1923 to 1927. The railroad issues for this period were as follows:*

	Amount	Per cent
Bonds	$2,739,800,000	89
Preferred stock	117,630,000	4
Common stock	217,290,000	7
Total	$3,074,720,000	100

The public utility issues were:

	Amount	Per cent
Bonds	$6,362,091,000	70
Preferred stock	1,557,990,000	17
Common stock	1,124,774,000	13
Total	$9,044,855,000	100

Study made by Bayard F. Pope, Pres. Stone & Webster and Blodget, Inc.

For the railroads, the bonds and preferred stock amount to 93% of the total issues. For the public utilities, they are 87%. These ratios are materially in excess of the percentage used above. They show the tremendous significance of the fixed return securities, both in relation to the "fair value" and the *rate* of return, as affecting the rates to be paid by the consumers, the financial stability of the industries, and the returns realized by the security owners.

The period has been one of generally low interest rates. For the bonds the rate has been near 5%, on preferred stock 6%, with, of course, variation as

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Supplementary Factors in Utility Revenue

Appliance Sales, Bus Transportation and Profitable Disposal of By-Products of Increasing Importance to Many Companies

By WARREN BEECHER

IN these days when greatest interest in public utilities centers in mergers, in new financing and tremendous production and transmission of power, other factors, although they may have increasing bearing on actual revenue, too often receive scant notice. This article purports to treat briefly some of the more interesting of these activities, which, while totally unrelated in themselves, are important in the aggregate and merit the thoughtful consideration of those interested in utility securities.

Electric and Gas Appliances

One evening some forty-five years ago a group of directors and gas company officials were entertained at dinner by Mr. Charles G. Francklyn, of the old New York Gas Light Company. The guests had been given no intimation that there were any unusual features connected with the meal until its conclusion, when they were invited to inspect the new gas stove, on which it had been prepared and which had, incidentally, been built for Mr. Francklyn at a cost of $280. As surprise gave way to the realization of the potentialties of gas cooking, one official remarked: "Why the Gas Company ought to give these stoves away!"

Here was born the idea of the appliance business as a direct concern of the utility company. Here was the early appreciation of the important part that domestic appliances were destined to play in stimulating the consumption of gas and, a few years later, of electricity. Today electric and gas companies are themselves aggressive marketers of all varieties of efficient and accredited devices for both home use or industrial application. For, of course, it is for the best interest of the utilities from the viewpoint of safety and general satisfaction with their service, to sustain, and even set, the high standard of the trade at large by selling only the best types of appliance merchandise.

Of course, from an economic standpoint appliances cannot be given away, or even distributed at cost; but in many cases the utility company can, and does, act as a dealer in appliances; and by selling within accepted price ranges offers no more than normal competition to the balance of the trade. At the same time, it is possible to secure sufficient profit over cost, warehousing and selling expense, even when time payment credit is offered the purchaser, to net a modest profit. This income, however, is not the important thing. From the standpoint of the electric or gas company all appliances sold, whether through its own agency or through independent merchants or dealers, represent increasing consumption of gas or electricity.

It is a matter of record in numerous communities that appliances account for more than 50% of all electricity consumed in domestic channels; while in the gas field the use of gas stoves and heating devices is of course responsible for a still greater proportion. Obviously it is the use

Appliance and Merchandise Sales for 1926 and 1927

(Compiled by *Electrcal Merchandising*)

NOTE: These figures were compiled by *Electrical Merchandising* from sales records of associations and manufacturers and from estimates made by association executives and leading manufacturers.

Appliance and Merchandise	1926 Number Sold	1926 Retail Value	1927 Number Sold	1927 Retail Value
Cleaners	1,065,000	$65,000,000	1,028,000	$49,344,000
Clocks	90,000	2,250,000	95,000	2,500,000
Cookers (660 watts and under)	175,000	1,750,000	200,000	1,800,000
Dishwashers	6,500	1,040,000	9,000	1,440,000
Fans	1,000,000	15,250,000	750,000	11,250,000
Fixtures, residential	13,000,000	78,000,000	13,000,000	75,000,000
Flashlights and renewal batt's	....	40,000,000	....	44,000,000
Floor polishers	90,000	5,400,000	100,000	6,000,000
Heating pads, etc.	230,000	1,840,000	255,000	1,657,500
Hot plates, grills and table stoves	300,000	1,860,000	315,000	1,890,000
Ironing machines	57,000	8,835,000	68,000	10,880,000
Irons	3,000,000	16,000,000	3,000,000	14,250,000
Lamps, incandescent	500,000.000	170,000,000	538,000,000	160,000,000
Lighting units, commercial	2,000,000	24,000,000	1,800,000	22,000,000
Percolators	400,000	6,000,000	450,000	5,400,000
Portable lamps and shades	6,000,000	80,000,000	6,000,000	72,000,000
Plugs, pural	3,000,000	1,200,000	3,000,000	1,200,000
Radiators and heaters	448,000	2,688,000	450,000	2,475,000
Ranges (except wall outlet)	110,000	16,500,000	110,000	17,600,000
Ranges, wall outlet	....	....	10,000	500,000
Refrigerators, domestic	248,000	65,200,000	365,000	82,125,000
Sewing machines	315,000	29,925,000	350,000	33,250,000
Toasters	600,000	2,250,000	625,000	2,343,000
Vibrators	....	....	150,000	1,150,000
Violet ray outfits	125,000	2,000,000	145,000	2,250,000
Waffle irons	180,000	2,160,000	300,000	3,300,000
Washing machines	843,000	124,000,000	790,000	118,500,000
Total		$763,088,000		$744,104,500

rather than the sale of equipment which is of the greater moment, and the more uses which can be found for domestic appliances and industrial apparatus the better balanced will be the daily load. For example, the power companies are actively interested in household application of gas or electric refrigeration as representing a demand for energy at precisely the periods, as in the summer season, when the requirements for heating and lighting are at low ebb. In the same way the gas water heater sustains consumption between the hours when meals are in preparation.

An Unexploited Field

The most encouraging feature in the whole subject of appliances lies in the fact that so much of the field remains to be exploited. Gas stoves are now selling at the rate of two million per annum and water and room heaters combined at almost as much. Still in cities of over 100,000, 21% of the homes do not yet use gas for cooking, while in the smaller communities of 5,000-10,000, 52% still depend on coal or wood. In the electrical field even such common devices as fans, toasters, washing machines and vacuum cleaners have covered less than 25% of their potential markets, while refrigerators, despite a sale of 365,000 units last year, have scarcely scratched the surface of their possibilities.

Manufactured Gas By-Products

The manufactured gas industry has no such lucrative by-product as gasoline, nevertheless such materials as sulphate of ammonia, which is largely used for fertilizer; naphthalene for moth prevention and the manufacture of other chemical compounds; coke for fuel and coal tar, whose derivatives are as numerous as the scriptural sands of the sea, are all products of large economic importance. It is true that most gas companies do not care to go outside their province as public utilities, or to make the capital investment necessary, to refine these products into their many possible constituents as was common practice during the war period. Today the tendency is to sell the by-product in the crude state leaving it to the chemical company to finish the job. Of course this is not true of coke, and several of the gas companies are making vigorous efforts to stimulate both the industrial and the domestic demand for this material. Despite its bulk, the movement gaining in so many communities to eliminate the smoke nuisance seems destined to afford continually broadening markets for this smokeless fuel.

Competition of Chilean nitrates and the growing trend toward the production of nitrogen products from the air has materially hampered the market for ammonium sulphate which the gas plants turn out, nevertheless the thousands of tons of this material annually produced, like the vast quantities of gas tar, in the aggregate are by no means an insignificant item in gas company revenue.

Utility By-Products

Ninety-two per cent of all natural gas produced last year was treated for the recovery of natural gas gasoline, which constitutes the most valuable by-product of the gas industry.

A large proportion of natural gas leaves the wells in a "wet" state. That is, it contains varying percentages of volatile gasoline vapors which can be "stripped" from it by adsorption and condensation, leaving the gas in suitable condition for pipe line transmission and providing, in the natural gas gasoline, a valuable motor fuel. The high combustibility of this gasoline makes it particularly applicable to airplane motors with but slight modification, and by blending with lower grade gasoline derived from petroleum, a highly satisfactory motor car fuel is produced. This latter use promises to grow still broader as the trend toward successively lower grade petroleum fractions for motor fuel make increasingly necessary the admixture of larger and larger proportions of an enriching material. In addition to this use, natural gas gasoline is being compressed into cylinders and sold for domestic heating and lighting in remote communities not yet served by gas.

While natural gas gasoline is more or less subject to the price fluctuations of the petroleum markets, and hence has suffered somewhat from the low prices obtaining during the past year, it nevertheless constitutes an appreciable portion of the revenue of many natural gas companies. From 350 to 1,000 gallons are recovered per million feet of gas treated, or, in other words, from the 1,206 billion cubic feet of natural gas treated in 1927, there were recovered 1,363 million gallons of gasoline. At an average value of ten cents a gallon, this brought in a revenue of 136 million dollars, nearly half as much as the total revenue derived from the sale of natural gas itself in the same period.

Motor Bus Transportation

Public demand for rapid, direct and frequent transportation service has given rise to the tremendous popularity of motor bus lines. The network of their many routes covers nearly every populated section of the country.

Just as the railroads met the bus competition with their short haul business by going into the bus business themselves, so the utilities are by similar means meeting the encroachment on their traction business. Of the total of 30,000 buses serving as common carriers in the country, electric railways operate 8,500, with every indication of further expansion.

Although no actual figures are available as to the exact revenue derived from utility bus operations, it is possible to make an approximation from the gross revenue from all buses in the country, common carriers and others, which last year was 312.5 million dollars, and which would mean about 40 million bus revenue to utilities operating them. While this figure may not appear large in relation to total utility revenue, it is an item susceptible to large and rapid growth as demands for this form of transportation increase.

When it is considered that during the past year motor buses carried a total of 266 million passengers, gaining 33% over the previous year, the effect on the trolley lines in loss of fares alone is obvious. Yet the influence on the tractions has not been wholly adverse. Bus competition has brought about notable economies and improvements in traction operation such as one man cars, improved service and riding comfort through better cars and roadbed. As a consequence trackage abandonment, while large, is probably less than is commonly realized, and is no doubt as much due to the growing use of the automobile as to bus competition. Taking the difference between total mileage on which service was discontinued last year and the new lines added, it amounted to about 600 miles in 1927.

Utility companies, however, are coming to think of themselves more as in the transportation business rather than making a close distinction between trolley operation and bus service. Apparently the trend is toward a corelation or coordination of the two services where they operate in common territory. Where the bus is not used as supplementary to traction service, it adequately fulfills the function of an independent transportation system. In either capacity its economy of operation, flexibility and popular favor destine it for increasingly wider fields of utility.

SOME CRITICISMS OFFERED BY THE OPPONENTS OF THE PUBLIC UTILITY HOLDING COMPANY

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legislation is adequate. The answer to the latter question will to a large measure determine the question as to the advantage or disadvantage of federal legislation.

The advocates of federal legislation maintain that the present state regulation does not have sufficient jurisdiction over electric power sold across state lines. Such legislation, it is further maintained, does not cover the regulation of public utility holding companies.

If this argument is sound, it must be assumed that the commissions have no power to protect the public against over-charges of distributing or operating companies within the state. In certain states, as in New York State (and there is no reason why all states might not have similar control), if it can be shown that more is being paid for power generated in another state and transmitted across the state than would have to be paid for this power elsewhere and delivered to the same market, the state Commission would have the right to stop the purchase of this power. Where fees for financing and operating supervision, etc., are paid by the subsidiary to the holding company they are either capital or operating expenditures made by the operating company and would also come under the jurisdiction of the state Commission which may accept or disallow as is considered equitable to the company and fair to the public. If this, then, be true, it would seem to cover the protection demanded by the advocates of federal legislation for the public, which is after all the chief purpose of regulatory legislation.

But it is argued, theoretically we might accept this, practically it does not operate. Effective control may now be possible under their existing statutes but we cannot have uniformity in such regulation unless we secure federal legislation. Uniformity to a degree is extremely desirable but should the most effective method of control be sacrificed merely to secure an immediate uniformity of regulation? Is this not in a measure dodging the main issue and where a proposal is so extensive in effects should not the fundamentals of the problem be studied with the greatest care before any action is taken?

As less than 10% of the power including that coming from Canada is transmitted across state borders, public utilities are highly localized in physical properties and in services to customers. Regardless, however, of the small amount of inter-state business involved, comparisons are made with the federal legislation on railroads. The two industries are not parallel. While public utilities are highly localized, it is impossible in the case of railroads to separate the interstate from the local business for accounting purposes. Under state control of railroads the temptation would always be to give preference to the citizens of one state against another. Furthermore, the conditions under which a public utility company provides service to a community are somewhat different in every locality. The local economic conditions in Arizona are quite different from those in New Jersey. There are undoubtedly many who believe that transmission power supply is now so perfected that power created in one part of the United States can be transmitted to all parts of the country. This mistaken notion evidently exists with many in respect to the proposed Federal legislation. If this idea is the controlling motive in the formulating of any part of any legislation of this character it will be unfortunate both for the industry and the public.

Though inter-connection and the distance of transmission has been greatly extended, the distance which voltage can be transmitted has decided limits. Costs rapidly increase from the energy lost as the distance of transmission increases. As compared to the total energy produced, the amount transmitted over very long distances is a

very small amount. Inter-connection for the purpose of securing greater dependency of power supply in case of accident is of importance even though the distance of transmission for day to day operations is not justified. This limitation again emphasizes the local character of the operating companies.

Though electric current in itself is the same in any state, local conditions determining the cost of production and distribution may vary widely. Any form of legislation or commission decisions should, therefore, take these facts into consideration, if regulation is to be made equitable. A more intelligent exercising of regulation or control over public utilities would as a consequence seem best vested in a body in close proximity to the problems in order to have a more intimate understanding of the conditions affecting local requirements.

Public Relationships When the late Judge Gary was asked: "In your eighty years of achievement, what in your opinion has been your biggest and best job?" he answered in this manner: "Helping to introduce the present system of candid publicity into corporation affairs. Of course, I was only one of many. Nobody does anything singlehanded. It is only by co-operation that great human ends are achieved. * * * The people have a right to know how the people's business is being carried on; and the more they know about it, the better it will be for business. Big business, like human life, cannot thrive in the dark."

When one compares the reports in a volume of *Moody's Manual* of twenty-five years ago with the published reports of some of the public utility companies today, one feels that the majority of these companies are endeavoring to carry out what Judge Gary considered an obligation to their stockholders and the public. This, however, cannot be said of all public utility managements. The purpose of some would seem to be a disregard of all interest in their stockholders. This is unfortunate in a double sense. In the first place, the great majority of these companies have nothing that needs to be hidden and if the full facts were published, they undoubtedly would increase the good-will of the public. On the other hand, if the facts are not divulged, where public interests are concerned, and no one will deny they are not in public utilities, an impression of a desire or need for secrecy is given. This often leads to antagonism that not only affects the particular company in question but the industry as a whole. If the public, on the other hand, knows the full facts, justice in the long run has always been tendered to the industry. As a Public Utilities Committee of the Investment Bankers' Association aptly said: *"A public fully and correctly informed will offer sterile ground for the arts and deceptions of demagogues."*

While all now recognize that where three different interests are concerned as in public utilities some legislation is needed, if for no other purpose than to define the rights of each party, the greater part of possible future legislation would be automatically eliminated if the public were fully informed of the needs and requirements of the industry in providing service. While certain muzzy headed politicians may clamor for legislation on all occasions, an understanding public does not want legislation affecting their economic conditions except under a real need. They fully realize and appreciate the disadvantage of needless legislation. On the other hand as holding companies continue to grow in size the greater is the danger of their executive staffs outgrowing public understanding and thus the greater is the necessity for public familiarity with the affairs within the industry.

Two distinct issues exist which the public utility holding company must deal with if it desires to check unfair agitation and prevent ill-advised legislation. The first is complete and candid information of operating and financial affairs of the public utility company to its own stockholders. There are so many instances of utilities meeting this requirement that the laggard in this respect can easily find guidance. Though the answer to this problem must be made by the individual companies it is, as far as the permanent

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Important Factors in Public Utility Securities Market

ONE of the most striking features of the security markets during the past few years has been the increasingly satisfactory yield basis on which the public utility companies have been able to attract new capital. Among other important factors leading to this result have been the public realization of the rapidly growing importance, stability and earning power of the various public utility industries as a class and the general trend of the money market toward lower interest rates and a consequent higher level of stock and bond prices.

Total Sales of Securities in United States—Including Bonds, Preferred and Common Stocks

(All amounts in millions—000,000 omitted)

	1923	*1924*	*1925*	*1926*	*1927*	*Totals*
Public Utilities...	$1,147	$1,553	$1,546	$1,884	$2,914	$9,045
Industrials	1,279	894	1,566	1,838	2,375	7,953
Railroads	533	836	422	401	883	3,075
Municipals	1,054	1,273	1,418	1,289	1,514	6,548
Foreign	267	970	945	931	1,274	4,387
Real Estate	250	340	727	739	665	2,721
Farm Loans	383	198	187	131	180	1,078

Whether this general trend to lower interest rates has ended definitely with our recent substantial exportations of gold, the higher rediscount rates recently established by the Federal Reserve Banks, and the many other current evidences of increasing stringency in the money market, or whether the present tightening is merely a temporary reversal in the long term movement the general trend of which will be resumed after a comparatively short period of readjustment, is a point which cannot now be determined and one regarding which the opinions of many of the most competent observers differ.

Investment Standing Several years ago the forecast was made that a fuller recognition of the essential soundness of the electric light and power industry, and of some other public utilities as well, would bring about a broad upward movement in the prices of bonds issued by representative companies in these fields with the final result that high grade public utility issues would sell on a yield basis comparable with the highest grade railroad bonds. This point has not yet been reached, but the margin of difference in yield is rapidly narrowing. Many investors who recalled the high rates at which even the strongest utilities were forced to borrow during the years just after the war, were skeptical when low coupon public utility bonds were predicted and regarded a 6% return on a utility bond as the investor's inalienable right, but, nevertheless, coupon rates have gradually been reduced until quite recently a large issue bearing a 4% coupon has been successfully sold at a price not greatly below par. Unless the trend of money rates proves to have been suddenly and definitely reversed we will undoubtedly see many high grade public utility bonds marketed at the same coupon rate.

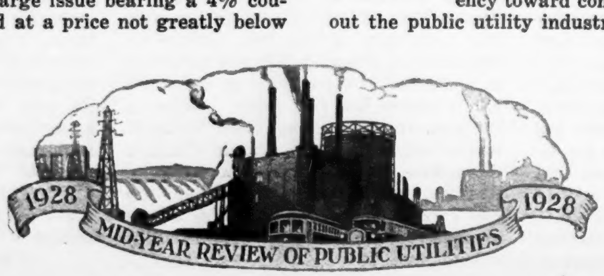
Records show that during the five years ended December 31, 1927, the American public invested some $34,806,783,000 in securities of corporations, foreign and domestic, and of this enormous total more than one-fourth, or $9,044,855,000 was invested in the stocks and bonds of American public utilities, and huge additional sums went into securities of similar corporations operating in foreign countries. In 1927 alone $2,914,000,000 was invested in public utility securities, a greater amount than in securities issued by any other single group.

An Important Development Legislation recently enacted by the State of New York, following the lead of numerous other states, has greatly liberalized the restrictions controlling investments by trustees, savings banks and life insurance companies. A selected list of bonds issued by certain telephone companies and light and power companies have been made legal investments for savings banks and trust funds. This is of vital importance as it is the first time that public utility bonds of any class have been so accepted and the list will undoubtedly be made broader as time passes.

Life insurance companies in New York are now allowed to buy preferred stocks of companies having an earnings record meeting certain standards. This law applies to preferred stocks as a general class rather than to those of public utilities alone, but many public utility issues have become eligible investments by virtue of its terms.

The effect of these new laws will be felt more and more as time passes not alone by stocks and bonds thereby placed on the lists of "legals" but also by those not fully meeting the required standards, for as funds of the large investing institutions absorb a large part of the legal issues other buyers will look more and more to sound issues, often equally secure, but for one reason or another failing for the time to measure up to the technical requirements of the laws.

Mergers In recent years there has been a strong tendency toward combinations and mergers thoughout the public utility industry but the trend has been particulary marked among the electric power and light companies through the development of great holding companies. Great advantages were claimed by reason of interconnected lines and power plants and economies due to more efficient management of large (*Please turn to page 649*)



New Important Utility Developments

1927 Shows Further Expansion of Business and Earnings—New Trends and Outlets for Future Development

By HARRY J. PORTER

Electric Light and Power

	Kw.-hours generated	No. of Customers
1927	75,116,000,000	21,694,100
1926	69,158,000,000	20,178,531

ELECTRIC power generation in the United States increased about 8.6% last year, the smallest percentage increase for any year since 1924. This brings to the fore the problem of sales effort, admitted by electrical men to be the point where there is greatest room for progress.

At the present time the average domestic consumer's bill for electrical service is about $2.50 a month. The industry is making an earnest effort to induce greater consumption of power per head. Most of the elements of cost would be unchanged, such as metering, bookkeeping, maintenance, distributing system expenses, etc., and the actual cost of power delivered at the generating station is only 15% of the final cost. Increased gross revenue from this source would mean a much bigger increase in net earnings, part of which might ultimately be passed back to the consumer.

The importance of distribution as against generation is shown by the fact that of the approximately $900,000,000 which the power and light industry proposes to spend this year for new facilities, approximately 56% will go for distributing equipment and 44% for generating facilities.

Last year, the industry drew down a gross income of $1,783,000,000 from an investment of about $8,000,000,000, indicating a turnover of capital of once in about 4½ years. Put in another way, the industry must invest about $4.50 for each $1 of annual gross business done. This makes it all the more important to raise this capital at as low a cost as possible. Because of the general decline in the cost of capital, the growing public realization of the high investment merit of most utility bonds, and the opening to such bonds of the outlet of savings bank and trust fund investment, hitherto denied to them by the laws of certain states, the average cost of capital to the utilities has been declining.

The recent successful flotation of a gas and electric bond with a coupon rate as low as 4% marks an era in utility financing, and indicates the possibility of substantial savings not only in raising new funds but in refinancing older high coupon bonds.

The merger movement which has played so important a role in utility affairs was only slightly active last year, possibly owing to the continued threat of governmental investigation. Since the close of last year it has been actively resumed, such major financial operations as the National Power & Light-Lehigh Power combination, the American Power & Light absorption of Montana Power and Washington Water Power, and the first steps toward the Consolidated Gas of New York-Brooklyn Edison merger, with still others in sight, marking the resumption of activity in this regard, which is often attended with stock market manifestations of the utmost importance to the investor or trader in stock.

Progress is being registered apace in the development of two great fields for future expansion, the extension of 24-hour sevice to individual farms and rural communities, and railroad electrification. It is estimated that hardly more than 12% of American farms are electrified; if only 50% of the remainder could be wired, there would be an increase of 2,200,000 heavy load consumers from this source alone, or about 10% of the total consumers at the end of 1927.

Railroad electrification bids fair to play a part in the development of the power and light business in 1928 and the two or three years immediately following. Roads expected to be prominent in this movement are the Philadelphia & Reading, which is carrying through electrification at its Philadelphia terminal; the Delaware, Lackawanna & Western on its suburban lines out of Hoboken, as well as less definite reports of impending action by the Pennsylvania toward electrifying the stretch from Washington to New York and the New York Central from Buffalo to New York.

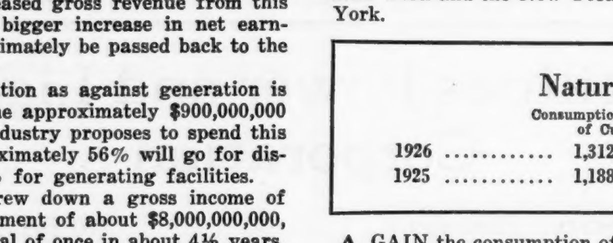
Natural Gas

	Consumption in Thousands of Cubic Feet	Number of Customers
1926	1,312,853,000	3,731,000
1925	1,188,439,000	3,508,000

AGAIN the consumption of natural gas in 1926 (the last year for which data are available) increased faster than the number of consumers. The reason is that the main development of this utility has been in the industrial field, which takes about three-fourths of the total sendout, leaving about one-fourth for domestic consumers.

The industry with its estimated investment of $1,600,000,000 received a total gross revenue in 1926 of somewhat under $300,000,000, the latter figure being an increase of about 220% over the revenue for 1914. A single new industrial customer may mean an added consumption of as much as 5,000,000 to 10,000,000 additional cubic feet of gas a day, or, at the average wholesale price of natural gas, some $400,000 gross revenue a year.

The domestic price of natural gas averages about one-half to one-third that of artificial gas, and the industrial or wholesale price is only a little over one-quarter that of the domestic price. The economic radius of transmission, or distance over which natural gas can be sent before leakage losses and other expenses bring up costs too high, has been steadily increased to about 400 miles, and an increasing number of cities is being switched over from the use of manufactured to that of natural gas. An important recent accession to the list is New Orleans, which is now being supplied



from the Monroe field of Northern Louisiana, nearly 300 miles away. Denver is now supplied with gas from the Panhandle fields of Texas, the line having been opened this year after a pipe-line was laid down in record time.

On the financial side, as natural gas companies increase their scope through merger and consolidation, and build up good earnings records, they have found themselves able to finance on increasingly attractive terms. A substantial part of the bonds issued in connection with the financing of natural gas properties is extinguished within 4 to 10 years, and the warrants for the purchase of common stock offered with these bonds have in many cases proved valuable. The growing policy of building up substantial gas reserves, far in excess of immediate requirements, tends to reduce costs and adds a desirable degree of investment stability to the industry.

Ability of the major companies to finance themselves for longer periods, thus leaving larger sums available for reserves and distributions to stockholders, and to refinance existing securities, which often sell on a very liberal yield basis, at lower rates, is a development already in sight. It is being greatly furthered by the increasing earnings based on the steady growth of business indicated by the figures at the head of this section.

Manufactured Gas

	Gas Sales (in Thousands of Cubic Feet)	Number of Customers
1926	455,631,000	11,047,000
1925	421,400,000	10,600,000

CONTRARY to natural gas, the backbone of the manufactured gas business is domestic consumption. Sales efforts of the industry are directed both toward the home consumer, particularly toward increasing consumption per capita, and toward a diversified list of industrial uses.

Considerable progress was made last year in extending domestic use of gas, beginning with the basic use for cooking, for such different purposes as house heating (both central heating and through gas-water radiators), garbage incineration, refrigeration, laundry drying, etc. The house heating business is especially important because of the large amounts of gas consumed, but has the disadvantage of being highly seasonal. Where its use is balanced by hot-water heating in summer and gas-fired refrigeration for ice-making, it forms a desirable addition to the domestic load.

The number of different uses, largely industrial, for manufactured gas has been growing steadily, from a thousand a few years ago well over 5,000. They range from delicate operations such as tempering watch springs to heavy-consumption, large scale uses as in the brick-making, glass, pottery and steel heat-treating industries.

The growth of large-scale cooking in hotels and restaurants has added considerable new business, as has also its increasing use under automatic steam boilers and in large-scale modern laundries.

As a result, the industry has shown an increase in sales each year for the past twenty-five years, or since it began to give up the lighting field to electricity and seek new markets. In this time it has increased sales by 350%, or seven times as fast as the growth of the country's population. Extension of gas service to small towns and isolated farmers is being considered but faces on even a more serious scale the same obstacles as the efforts of the electric power and light industry in the same field, viz., the high cost of laying down distributing facilities per consumer in thinly settled territory as against the densely-peopled cities.

Substantial efforts are being made to displace both soft and hard coal in many of their uses by manufactured gas, and in a large number of instances a very appealing case for economy, control of operations, freedom from smoke and ashes, and other advantages can be made out. Usually such substitutions involve redesigning machinery or other plant changes, but their costs are rarely so serious as to hinder effectively the increasing consumption of artificial gas in these directions.

Considering these possibilities, it may well be that gas is even further away from any "saturation point" than electricity, as a leader of the industry recently stated.

Telephone

	Bell and Connected Telephones in Service	% Increase
1927	18,350,000	4.0%
1926	17,574,000	
	Telephones not Bell-Connected	**% Decrease**
1927	167,000	2.9%
1926	172,000	

WHILE the increase in the number of Bell and Bell-connected telephones in use last year was somewhat smaller than the 5.3% reported in 1926, the achievements of the industry, certainly from the standpoint of public importance, were probably greater.

They include the installation of transatlantic telephony, beginning with London and later extended to practically the entire British Isles and the Continent, while the number of hours during which service is available has been steadily extended to over 10 hours a day, and rates have been reduced. Direct service has also been opened to Mexico, a third transcontinental line has been opened to the Pacific Northwest, and long-distant tolls were reduced to the extent of $1,500,000 a year following the reduction of an estimated $3,000,000 a year in 1926.

The telephotograph service, allowing the transmission of photographs by wire, has been extended to additional cities, including Los Angeles, St. Louis and Atlanta. Another new development, still barely past the experimental stage, has been television, or the long-distance transmission of images of actual objects, both by wire and by radio, the latter in conjunction with the transmission of speeches, concert performances, songs, etc., through a loud-speaker.

The close connection between the telephone industry and radio has further been shown in the use of long-distance telephone wires as part of nation-wide broadcasting hook-ups, and other developments, such as the delivery of radio entertainment over telephone wires on a toll basis, the use of special types of broadcasting for overland transmission of telephone messages as is already being done overseas, thus saving the immense costs of laying cables or maintaining open-air equipment, while probably not yet on a commercial or practical basis, should in itme serve to link up closely the two branches of the communications business.

Further technical improvement in the ordinary run of business, included a 25% increase in the number of dial-operated stations, bringing them up to 2,500,000, or approximately one-seventh of the total. Progress has been made in eliminating exchange plant troubles, and in reducing the time necessary to complete toll calls from an average of 6½ minutes in 1925 to a current average speed of 2½ minutes.

From a business point of view, the industry has maintained is reputation for steady growth and extraordinary stability, and in the case of the International Telephone and Telegraph Corporation, a tradition of far-seeing and rapid expansion through absorption of such large and important concerns as the Postal Telegraph and cable system and the All-American Cables, Inc.

do you "buy stocks"

.... or do you invest *to* keep *your capital* safe *and to secure a better-than-average income?*

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The starting point is to take stock of all these personal factors. Secondly—after this has established the type of securities you should own—how much in bonds, how much in preferred and common stocks—the question arises as to what these securities should be, specifically. Thirdly, and this, too, is vital to full success; *when* should you buy? For instance, is it a good time right now?

To sum up and analyze your personal status, to post yourself and *keep* posted on business conditions, money rates, security trends and special circumstances affecting a company or industry, and lastly, to select the most desirable individual stocks and bonds would seem nearly impossible for an individual. It is. Neither time nor sources of information are adequate.

Which are you doing?

So, most men, if they will stop to consider it, will realize they are doing one of two things; *speculating* (buying and selling on tips, advice of friends, news items or what not) or *investing conservatively* (government bonds, municipals, old line preferred stocks). The vast majority of speculators *lose* money eventually. They may profit this year or next, but eventually instead of an income *return* they show a capital *loss*. The conservative investor, on the other hand, must be content with 4%, 5% or 6%—not a large return, surely.

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O F F I C E S I N P R I N C I P A L C I T I E S

Traction Bonds—Bargain or High Risk?

High Yields on Representative Issues Raise Question of Investment Stability—Types of Issues Favorably Situated

By ROGER P. MORTON

THE ten representative traction bonds listed in the accompanying table show a uniformly high yield which can be explained only on the basis of a general distrust by the investing public toward the entire electric railway industry. Contrasting with the general advance in all types of bonds, selected traction bonds have shown an increase of less than 10% over the average prices in 1923, when the bull movement in bonds got well under way.

Investors who already own these bonds are faced with the dilemma of holding or selling. Intending purchasers, who may be attracted by the high yield, which are among the few opportunities to invest on a basis comparable to that of five years ago, are still uncertain as to whether the very fact of a high yield does not indicate approaching trouble. There is a general feeling in some circles that the street railway business, unlike any other public utility is going backward, that it is continuing to have financial difficulties and that bonds bought at present prices have a very uncertain future to look forward to.

Origin of Difficulties The origin of the present attitude towards traction bonds expressed in their low prices and high returns lies, as everyone knows, in the changes brought about early in the war. Cost of service advanced with increasing prices and wages, while fares did not advance for a time correspondingly; excessive expansion, which had marked certain traction situations even before the war, was intensified by the wartime need for production involving provisional facilities for transporting huge armies of workers to new industrial locations; shortly after the war, jitney and bus competition, often helped along by political and legislative factors hostile to the street railways sprang up rapidly; the tremendous growth of the privately owned passenger automobile and the good roads movement made necessary by it cut into the passenger traffic.

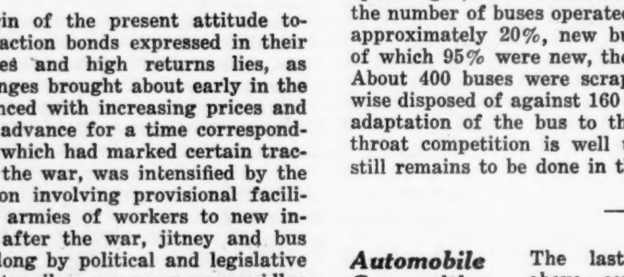
These being the causes of the present difficulty of the traction industry, let us see to what extent they are still operative. As to increasing costs, the movement has been checked and in part reversed since 1920. Last year wages advanced 1%, but cost of material declined about 9% and additional economies were achieved through curtailment of service where economically and legally practicable. Fares, on the other hand, have risen steadily and are still rising. The average fare in 1917 was 5.8 cents; by 1922, it had increased to 7.02 cents and at the present time is close to 8 cents. Last year, average fares increased 3% over 1926, and an advance of the New York City rate of fare to 7 cents, which will be argued before the Supreme Court in October of this year, would remove the last metropolitan stronghold of the 5 cent fare.

Reconstruction Progress has also been made toward correcting the speculative or other excessive expansion. According to one authority, last year 29 companies abandoned 383 miles of track, an average of 13 miles per company; in 1926, 23 companies abandoned 352 miles of track, an average of 15 miles to the company. This indicates that the smaller and less economical units of the industry are being eliminated. In comparison with these figures, we must place a total of 192 miles of extension and 888 miles of reconstruction work accomplished last year, which it can safely be assumed was in profitable territory, as otherwise the expenditures would not have been made. The industry budget for 1928 calls for a total expenditure of $246,142,000, the highest since 1925. Of this amount nearly $90,000,000 is to be spent for additions to permanent way and structures, or approximately 50% more than the average expenditures from 1924 to 1927 inclusive.

The problem of jitney and bus competition has been solved by the elimination of the jitney, properly so-called, and the adoption of the bus by the street railway company in two capacities, as a feeder and as a supplement, rather than as a competitor. In 1921, 16 electric railway companies operated 25 buses over a total of 35 miles of route. Late in 1927, it is calculated that 367 electric railways were operating 8,350 buses on 16,722 miles of road. Last year the number of buses operated by electric railways increased approximately 20%, new buses purchased totalling 1,801, of which 95% were new, the remainder being second-hand. About 400 buses were scrapped, sold, converted or otherwise disposed of against 160 in 1926. In short, the friendly adaptation of the bus to the street car, rather than cutthroat competition is well under way, even if something still remains to be done in this direction.

Automobile Competition The last inimical factor mentioned above, competition of privately owned automobiles, while completely outside the control of the electric railway industry, shows signs of beginning to cancel its own effectiveness. Automobile registrations after advancing from 4,000,000 in 1921 to over 23,000,000 at the present time, have shown a much slower rate of increase in the past three years, and traffic congestion plus the limited amount of parking space and restrictions growing therefrom are making the automobile less and less of a competitor for intra-city transportation. The interurban lines, of course, continue to feel the full effect of this competition, and it is proposed in the following paragraphs to make a sharp distinction between the position and the outlook for traction companies operating mostly within the larger towns and cities and those operating to any great extent or entirely between cities.

A birdseye view of the main problems of the industry and the extent of which they are being successfully met, therefore encourages the general belief that certain branches, at least, of the street railway business are getting back to a sound business basis, and that their securities are worth investigating more closely for individual merit.



An examination of the figures on representative companies totalling about 65% of the country's street railway lines prepared under the auspices of the industry's national association, tends strongly to confirm this view. A total of 206 reporting companies showed a decline in gross operating revenue of 1.68% for 1927 as against 1926, and a decline in the number of revenue passengers carried of 2.49%. Because of the average increase of 3% in fares, however, passenger revenue declined only 1.94%. Operating expenses declined 1.77%, due to lower cost of materials, curtailment of service at certain points, and substantial economies due to more efficient operation. The average speed of a car raised from 10.1 to 10.2 miles an hour, resulting together with other factors making for economy an increase in the mileage travelled per car from 39,226 miles in 1926 to 39,549 in 1927. Net income before fixed charges, therefore, showed a decline of only 3/10ths of 1%.

Table I—Ten Representative Traction Bonds

	Rate	Maturity	Price	Yield
*Broadway & Seventh Ave...	5	1943	72½	8.22
*New York State Railways...	4½	1962	56½	8.38
*United Rys. of St. Louis.....	4	1934	84	7.35
Des Moines City............	5	1936	60	13.33
Chicago & West Towns.....	6	1932	96½	7.02
B'klyn City & Newtown.....	5	1939	87	6.70
Gary St. Rys.	5	1937	90½	6.40
Warren & Jamestown.......	5	1934	85	8.20
*Third Ave. ref.	4	1960	69	6.25
Schenectady Rys.	5	1946	56	10.45

*Listed on New York Stock Exchange.

Analysis of these figures by dividing the 206 companies represented into three groups, composed of 79 companies operating within cities, 50 interurban companies, and 77 companies, operating both city and interurban services, shows an enormous difference among these routes strongly in favor of the first. For the city companies, the decline in gross operating revenue for the year was only ⅞ths of 1%; operating expenses declined proportionately faster by 1.63%, so that net income before charges actually increased last year by 1.13% and net available for dividends increased fully 7.59%. Number of revenue passengers carried declined only 1.56%, but in spite of this it was possible to reduce the operating ratio (percentage of gross revenue absorbed by operating expenses) from 71.48% to 70.91%.

Barring the relatively small declines in passengers carried and in gross operating revenue the above represents an attractive financial story.

Interurbans Still in Trouble

Far otherwise was the situation among the 50 reporting interurban lines. Gross declined 3.19%, or four times as much as the city lines, total passengers carried 5.27%, and net earnings declined even much faster than gross, by 15.24%. The operating ratio shot up nearly 2 points, from 84.26% to 86.32%. In 1926 earnings had been insufficient to meet fixed charges by a deficit of $1,350,643; in 1927, the deficit was increased to $1,694,263, an increase of 25.48%.

The 77 mixed city and interurban lines individually smaller and serving on the average smaller communities have apparently proven still more vulnerable to the ravages of the automobile. Number of passengers carried declined 7.16%, gross revenues declined 3.70%, net operating revenues went down 9.11%, and net income available for dividends suffered a tremendous reduction from $2,269,681 to $74,103, a decline of 96.74%. The net operating ratio during the year was brought up from 78.20% to 79.42%.

The enormous disparity between the progress shown by the city lines and those operating partly or wholly on an interurban basis, shows the futility of dealing with traction bonds as if they all had to face pretty much the same problem, and shows how essential it is to study individual situations.

This impression is reinforced on examining the financial condition of such companies grouped as above as make public their balance sheets.

Fifty-eight city companies showed a total increase in their plant investment for 1927 against 1926, of 2.31%, an increase in their profit and loss surplus account of 22.16%, and a decrease in their current liabilities of 5.62%; a picture of financial health.

The 44 interurban lines showed an increase of less than ½ of 1% in their property accounts, their total profit and loss surplus was transformed from the tiny amount of $93,349 at the end of 1926 to a profit and loss deficit of $1,607,679, equivalent to a reduction of 1.822%, and their current liabilities showed an actual increase during the year of 8.61%.

The 59 mixed city and interurban type roads occupied an intermediate position, their total property account showing an increase of 0.87%, their profit and loss surplus a decline of 40.18%, while their current liabilities likewise declined 3.36%.

Within these groups, the largest companies of all classes did relatively far better than the medium and small sized companies. The latter, serving the small communities have been hard hit by independent bus line competition as well as the private automobile, and in the face of their intensely competitive situation cannot raise fares, so that they lose both ways.

Conclusion

It appears from the above that taken as a class the larger companies operating within cities have made great progress toward financial stability, although the fact that their readjustment is not yet complete is shown by the continued slight decline in passengers carried and in gross revenues. Fares are still being raised; 21 new cities joined the 10c fare group last year, and in one, the basic rate was advanced to 8c. A special circumstance which may have aggravated the decline in passenger revenue last year was the unusually mild open winter, as earlier in the year volume of traffic was persistently higher than in 1926.

An important part of the traction industry is thus seen to be meeting its problems successfully, on the whole. A new spirit of aggressiveness is characterizing the industry and is evidenced by modernizing equipment, going after freight and other auxiliary business, and generally paying greater regard to the cultivation of good will and development of the merchandising attitude toward the business.

On the financial side, it is noteworthy that new issues last year amounted to (*Please turn to page* 628)

Sidelights on Telephone Economics

Unique Situation of Telephone Industry — Importance of Reducing Costs Without Spur of Competition— Do Stable Earnings Imply Slow Further Growth?

By KENNETH E. GRAHAM

THE telephone industry of the United States occupies a unique position from an international point of view and also in comparison with any other industry in the United States. Of the total of something over 27,000,000 telephones in the World, the United States has approximately 52%; compared with Europe, it has twice the number of telephones with one-quarter the population. It is the only major country where the telephone system is entirely privately owned; in most European countries except Spain, the telephone system is a branch of the post office and government-operated and-owned.

Compared with other great industries and the other public utilities, in particular, it is unique in that it enjoys practically a nation-wide monopoly of an interconnected utility service. Independent telephones not owned by or connected with the Bell system constitute only a little over 8% of the total telephones of the country. The total investment of the Bell system is approximately $3,000,000,000, against $237,000,000 representing the total investment of Class A, B and C companies (doing not less than $50,000 a year each).

Distinctive Features

So much for the preliminary outline of the position of the American telephone industry. The first distinctive feature of its peculiar economics is the fact that as the size of the plant increases, the cost of service per unit (here per telephone call) also increases. This is directly contrary to the economics of ordinary large-scale enterprise. We are accustomed to find that the larger the steel plant, or the gas works, or the electric power plant, the lower the cost per ton of steel or per thousand feet of gas or per kilowatt-hour.

The reason for this difference is clear on analysis. Reduce the complicated existing telephone system to its simplest theoretical unit, and we have two subscribers, the total equipment required consisting of two pairs of telephone receivers and transmitters, a pair of wires, and two batteries. Let this unit grow to a group of two hundred subscribers, and in addition to the two hundred sets of batteries, receivers, transmitters and wires, it will be necessary to have a central switchboard, with operators, trunk lines, and other equipment which was not needed or represented in any way when the group consisted of only two. Now let us extend the illustration to an actual city of over six million, like New York. The equipment required will include not only the primary material, the receivers, transmitters, wires, and batteries, and the secondary, such as switchboards, operators, etc., but still further expenses will arise from the necessity of complicated systems of cables, enormously complicated switchboards, a research and development department, a forecasting and statistical bureau, departments for the training of employees, for the sale of securities, and a thousand of similar sources of expenditures not reflected directly in additional gross income but necessitated by the growth of business.

As a practical matter, the number of dollars invested in plant and equipment per subscriber, and the operating expense per telephone call, will show a decided tendency to increase rapidly as the number of subscribers and calls increase. To a certain limited extent there will be a dilution of overhead costs, as in any ordinary line of business, as subscribers use their telephones more frequently or existing general equipment such as overhead wire and cables, switchboards and the like is used more intensively. Before long, however, the peculiar economics of the industry will re-assert itself and it will be found necessary, for three times the volume of traffic, to install not merely three times the amount of equipment but additional equipment to take care of the increased density of the traffic.

On the other hand, not merely the cost of handling traffic increases with rising density, but also the value of the service rendered. Two subscribers, the proud possessors of the only two telephones constituting an independent system in a tiny village, might have little to say to each other except to discuss the weather and the state of crops. In a big city, however, business deals, social engagements, personal requirements of great importance are handled over the telephone. The average city dweller could not conceive how his life could be organized without the telephone. It is well-known that the Dodge deal of 1925, involving 146 millions of dollars, was put through with respect to several of its important phases by long-distance telephone.

In spite of the increasing value of its services, however, the tendency to higher costs and capital expenditure with rising use (or "consumption"), if unchecked, would shortly put up rates to a point where they would check all further growth. Technically speaking, a self-limiting factor, which at all times threatens to strangle the development of the telephone business, resides in the fact that increasing consumption brings increasing costs of operation and capital or overhead costs.

For this reason the telephone business, though very nearly a monopoly in this country, must continue to work out methods of reducing costs which make it possible to extend the business without having to put up rates to an exorbitant level. The self-limiting nature of the industry's economics, left to themselves, therefore supply a spur to utmost efficiency of operation which in other industries is supplied by competition.

Creative Economy

The industry has responded to this need for decreased costs admirably. The American Telephone & Telegraph Co. with its subsidiary, the Western Electric Co., is said to maintain a research staff of over 4,000 men, fully half of whom are classified as scientists and engineers. While a complete survey of the results of their activity in reducing costs would require a technical and extended discussion which is impracticable here, the following instances illustrate graphically what has been accomplished.

Older readers will recall the huge forests of telephone poles carrying dozens of wires and cross-arms like geometrical trees. When the number of cross-arms increased to a point where further progress in this direction was impos-

Are

OIL STOCKS

A Buy—Again?

Although urgent liquidation in oils — following the difficulties of 1927 — was completed in the early spring, oil stocks as a group have done little over the past two months, doubtless due to unsettled general stock market conditions.

The majority of oil stocks are again within striking distance of the low points of 1928.

INDIVIDUAL BARGAINS?

Material improvement in the industry, coupled with this situation in securities, once again furnishes the basis for individual bargain opportunities.

Gasolene consumption is materially in excess of production. Even the crude oil markets are showing strength, although it is admitted that the relation of production and consumption is not as satisfactory as in the gasolene end of the industry.

THE OUTLOOK FOR THE LAST SIX MONTHS OF 1928?

Continued improvement, of the type of that of the past month, will mean a marked increase in the net earnings of the majority of oils. Is the outlook for such continued improvement? Or, being at the peak of gasolene consumption, must we look for renewed price cutting later in the summer, as in 1927, with unsatisfactory earnings developing again for oil companies the last half of the year?

Because of the importance of this situation from the standpoint of stock market profits, we have devoted a portion of our latest Bulletin to a thorough discussion of the outlook for oils, giving specific recommendations that should be valuable for holders, or prospective purchasers, of oil issues.

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sible, it was found practicable to carry the wires underground, in insulated cables, rather than overhead. The early cables carried fifty pairs of wires, and cost $225 per mile of wire; now the standard is 1,200 pairs in a cable, costing $12.50 per mile of wire and there is ground to believe 1,800 pairs of wires to a cable will soon be adopted. These cables have spread, at first from limited areas within cities, until now the great transcontinental telephone lines that span the country from New York to San Francisco are carried in cables, free from the risk of weather disturbance, all the way. The saving achieved by research on this item alone runs into millions of dollars.

In long-distance telephony, the weak current which starts from the transmitting point must be reinforced from time to time if it is to carry an intelligible sound to its destination, or else a very powerful current must be used at the start. A telephone engineer has stated that without the use of "repeaters," as these reinforcing devices are called, the current now used to carry a voice from New York to San Francisco would give out by the time it reached Harrisburg, Pa. To reach Chicago, it would be necessary to use enough power to light two twenty-candle-power lamps; for Omaha, one would need enough to operate a five-kilowatt broadcasting station; for Rawlins, Wyo., all the power of a big 50,000-kilowatt generator; to reach San Francisco, probably as much power as all the mechanical and electrical generating equipment of the world combined could produce, even if a telephone line could be built that would stand it.

Increase of Savings

These and other mechanical improvements, for the most part developed by the telephone companies' own research staff, have brought about savings aggregating millions of dollars a year, and have made possible the extension of service in new directions and on an unprecedented scale.

Another method of combating the tendency to increasing costs has been the scientific study of probable future traffic, based on forecasting the growth and direction of population trends, density of telephone traffic, etc. Immense savings have been achieved by having sufficient equipment and reserves prepared to meet increasing rquirements, as well as by not overexpanding facilities and thereby incurring great capital costs where only a moderate increase in use is forecast.

The scientific estimation of probable future business and requirements has probably been carried further by the major telephone company than by any other business organization in the world. As we have seen before, the question of keeping down costs by adjusting capital investment to traffic, by preparing to meet peak load demands in a manner than will not unnecessarily increase operating costs, and by keeping the plant and equipment flexible to meet expected increases in demand, has an importance for this business even greater than for the ordinary run of business enterprises.

Still another method of keeping down costs has been the steady replacement of skilled labor by automatic machinery. The increasing installation of automatic dial telephones to replace manually-operated ones, automatic exchanges, and the like, increase capital costs but reduce current operating expense, and if the density of traffic has been properly estimated, there is a net saving which helps to stave off the necessity of raising rates.

Further economies have been achieved to a great extent in the past through interconnection and consolidation, and absorption of independent exchanges, but future savings from this source will necessarily be limited by the fact that comparatively few independent exchanges are left, and in a large proportion of these there are sound economic reasons why it would not pay the Bell System to affiliate them into its network.

Last year there were approximately 14,000 independent exchanges controlled by 9,000 companies. During the year, about 750 exchanges were sold, most of them doing a very small business (only 43 of them were in Classes A, B or C.)

Demand for Increased Rates

In spite of all these factors tending to reduce costs, latterly the public demand for increased and improved service, coupled with the basic tendency of the industry toward higher costs with increased volume of business, has compelled a number of companies, both large and small, to apply for increased rates. In view of the fact that rates of many other utilities have been going down, and that the general trend of commodity prices has been downward for some time, such applications have met with considerable opposition. It will be understood from the above that merely letting costs advance and getting steadily higher rates is no solution for the industry's problems, as before long it will involve reaching a level of rates which will prohibit further growth.

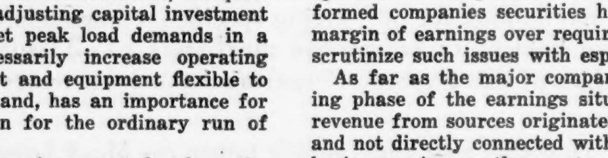
Adjustments within the rate structure may temporarily relieve the situation. In the early days of the telephone, rates were charged per instrument per year, in other words, on an unlimited service basis precisely as in the case of the natural gas industry. The present arrangement, or "measured service rate," providing for the sale of calls in blocks, with a minimum block of a certain size, additional blocks of 50 or 100 calls to be charged for at a lower rate and as used, seems to be a sounder arrangement, in view of the economic fact that costs of operation in the telephone business vary with the number of calls, not merely with the number of telephones installed.

Still further difficulty in raising rates will be found in the general tendency toward lower returns on money than in the recent past. Discussions of the famous "fair return on a fair investment" have hitherto been primarily taken up with the "fair investment," that is, with determining methods of valuation. Now that progress has been made in these respects, it is possible that the "fair return" may come in for authoritative examination, and where certain decisions in the past have fixed 8% or 7%, without indicating the basic reasons for such determination, it is possible lower rates may be held to be standard.

Such developments should not materially hurt the position of well-financed telephone companies, as their financial structure should be flexible enough to allow of appropriate changes—say, through an increasing proportion of low coupon rate bonds. In case of some recent telephone financing among the smaller companies, particularly where established operators of independent exchanges have sold out to newly-formed companies securities have been issued with a thin margin of earnings over requirements, and investors should scrutinize such issues with especial care.

As far as the major company is concerned, an interesting phase of the earnings situation is the development of revenue from sources originated by its research department and not directly connected with its regular communications business. Among these outgrowths of its research activities have been such diversified uses as the public address system for simultaneous listening by large audiences, the orthophonic phonograph, talking movies, television, and in this class belong such extensions of the regular telephone business as transmission of photographs over telephone wires and transatlantic wireless telephony. Transmission of radio entertainment over the telephone wire may be just around the corner, and to it may be added television movies for the home.

These activities of a non-public utility nature do not, of course, constitute any important part of the income of the American Telephone & Telegraph Co. In view of the fact of strict regulation by public service commissions, and the declared policy of using increased earnings to reduce charges or improve service, however, they indicate certain very interesting long-pull possibilities for the stock.



Why Water Company Bonds Appeal to Investors

By GEORGE L. OHRSTROM

BONDS of well-managed water supply companies have always been regarded as exceptionally sound investments. In recent years, however, they have become increasingly popular with all classes of investors, including large banks and insurance companies, trustees and individuals, until today such securities are more extensively owned and more widely distributed than ever before.

There are many reasons why water company bonds enjoy a high degree of favor. In any judicious selection of investments, careful consideration should always be given to certain fundamental factors, such as safety of principal, stability of earnings, certainty of investment income, reasonable freedom from business risks, and a ready market in which to liquidate investment holdings whenever necessary or desired.

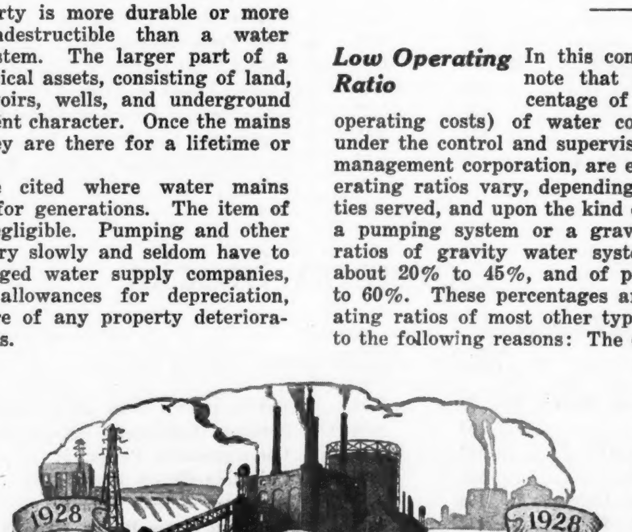
Even a cursory study of water company bonds will show that they possess all of these requisites, and in some important respects occupy a unique position in the investment field.

Safety of Principal It has been well said that "deep in every human being is a desire for certainty," and that "this fundamental human trait applies with especial force to investments." To every investor, therefore, safety of principal is of prime importance. In the case of water supply companies, property valuation invariably exceeds by a substantial margin the entire outstanding funded indebtedness. First mortgage water bonds, in most instances, represent loans ranging from 50% to 75% of the total value of the mortgaged properties, appraised on the basis of reproduction cost, less depreciation. Such percentages are very conservative loans upon public utility properties, especially those which supply water for domestic and industrial purposes,—quite an indispensable service.

Water Systems Permanent No property is more durable or more nearly indestructible than a water works system. The larger part of a water supply company's physical assets, consisting of land, lakes, concrete dams, reservoirs, wells, and underground mains, are of a most permanent character. Once the mains are placed in the ground they are there for a lifetime or longer.

Many instances could be cited where water mains have been in actual service for generations. The item of depreciation is practically negligible. Pumping and other machinery also depreciate very slowly and seldom have to be replaced. The best-managed water supply companies, nevertheless, make liberal allowances for depreciation, which are ample to take care of any property deterioration under ordinary conditions.

Earnings Remarkably Stable Of equal importance to the margin of safety, represented by the valuation of a borrowing company's property over funded debt, is the remarkable stability of water company earnings. Obviously, the prompt payment of interest and principal depends upon sufficient revenues. In no other industry are corporate earnings so little affected by changes in general business conditions. The water supply industry is the oldest of what are generally known as public utilities. It is based upon a necessity of life and is constant, in good times or bad. Even in periods of business or industrial depression, there is no appreciable falling off in water consumption; people may economize in other directions, but they do not curtail their use of water. For this reason, earnings of water companies are singularly free from wide fluctuations. Furthermore, as communities grow, and as industries develop and expand, demand for water service automatically increases and steadily augments water companies' earnings. During the past six years, combined gross revenues of companies comprising one of the largest water supply systems in the United States under centralized management have increased more than 35%.



Reasonable Rates Assured Another highly important fact is that in most States privately-owned water companies are under the jurisdiction of public utility commissions or other regulatory bodies who place valuations on water company properties for rate-making purposes. These authorities are committed to the firmly-established principle that water-supply companies, like other public utilities, are entitled to a fair return on the value of their properties used in rendering service. They usually establish rates which guarantee a return of from 7% to 8% upon property valuation. Water companies, therefore, are assured of reasonable rates for their service, and this in turn assures a dependable income for holders of water company bonds. Records show that net earnings of well-established and well-managed water supply companies are at least twice the interest charges on their entire outstanding funded indebtedness, and not infrequently exceed this ratio.

Low Operating Ratio In this connection, it is interesting to note that operating ratios (the percentage of gross earnings absorbed by operating costs) of water companies, particularly those under the control and supervision of a central holding and management corporation, are exceptionally low. These operating ratios vary, depending upon the size of communities served, and upon the kind of system employed, whether a pumping system or a gravity system. The operating ratios of gravity water systems ordinarily range from about 20% to 45%, and of pumping systems, from 40% to 60%. These percentages are much less than the operating ratios of most other types of utilities, owing chiefly to the following reasons: The cost of raw material is relatively small; the personnel required to operate a water plant is much smaller; and maintenance charges are considerably less, due to the fact that most of the assets of a water company require little attention. The depreciation factor is also much less than in other (*Please turn to page* 651)

Public Utility Security Suggestions

These suggestions are made for the benefit of investors contemplating the purchase of additional securities. Owing to the uncertain character of the market, however, purchases should be limited until the market situation stabilizes.

Bonds

Operating Companies

	Approx. Price*	Approx. Yield %
Oklahoma Gas & Elec. Co., 1st 5's, 1950	100	5.00
Ohio Power Co., 1st & Ref. 5's, 1952	100	5.00
Tex. Power & Light, 1st & Ref. 5's, 1956	100	5.00
Mississippi Pr. Co., 1st & Ref. 5's, 1955	100	5.00
Appalachian Elec. Pwr., 1st & Ref. 5's, 1956	99	5.07
Pub. Serv. Co. of Okla., 1st "D" 5's, 1957	99	5.08
Ark. Pwr. & Lgt., 1st & Ref. 5's, 1956	98	5.12
New Or. Pub. Serv., 1st & Ref. 5's, 1952	97	5.18
Missouri Pwr. & Lgt., 1st "A" 5½'s, 1955	104	5.22
Puget Sound Power & Light, 1st & Ref. 5½'s, 1949	102	5.26
Manitoba Power Co., 1st "A" 5½'s, 1951	102	5.26
Northern States Pwr., 5½% Notes, 1940	102	5.28
Florida Power & Light, 1st 5's, 1954	96	5.28
Tide Water Pwr. Co., 1st & Ref. 6's, 1942	103	5.69
Brooklyn Manhat'n Transit Sec. 6s, 1968	100	6.00

*Fractions omitted.

Holding Companies

	Approx. Price	Approx. Yield %
Colum. Gas & Elec., Deb. 5's, 1952	99	5.07
Philadelphia Co., Sec. 5's, 1967	98	5.12
American Gas & Elec., Deb. 5's, 2028	96	5.18
Federal Lgt. & Trac., 1st 5's, 1942	97	5.28
Nevada Calif. Elec. Corp., 1st Tru. 5's, 1956	95	5.33
Continental Gas & Elec., Deb. 5's, 1958	93	5.45
United Lgt. & Pwr., 1st & Cons. 5½'s, 1959	100	5.50
National Pwr. & Lgt., Deb. 6's, 2026	107	5.59
American Pwr. & Lgt., Deb. 6's, 2016	107	5.60
Amer. Water Wks. & Elec., Deb. 6's, 1975	106	5.61
Penn-Ohio Edison Co., Deb. 6's, 1950	103	5.61
Lehigh Pwr. Securities, Deb. 6's, 2026	106	5.66
Southeastern Pwr. & Lgt., Deb. 6's, 2025	106	5.67
Cities Service Pwr. & Lgt., Deb. 5½'s 1952	98	5.68
Standard Gas & Elec., Deb. 6's, 1966	104	5.74

Preferred Stocks

Operating Companies

	Approx. Price	Approx. Yield %
Hudson & Manhattan R.R., $5	89	5.62
New York Steam, $6	101	5.94
Lexington Utilities, $6.50	102	6.37
Kansas City Power & Light, $7	109	6.42
New Orleans Public Service, $7	106	6.60
Sioux City Gas & Electric, $7	105	6.67
Florida Power & Light, $7	104	6.73
Jersey Central Power & Light, $7	104	6.73

Holding Companies

	Approx. Price	Approx. Yield %
North American Edison, $6	102	5.88
Middle West Utilities, $6	97	6.19
West Penn Electric, $7	112	6.25
United Light & Power, Class A, $6.50	101	6.44
Electric Power & Light, $7	107	6.54
Cities Service Power & Light, $7	108	6.58
Continental Gas & Elec. Prior, $7	106	6.60
Brooklyn-Manhattan Transit, $6	89	6.74

Common Stocks

Operating Companies

	Approx. Price	Approx. Yield %
Con. Gas Elec. Lgt. & Pwr. (Balt.), $3	78	3.80
Detroit Edison, $8	198	4.04
Edison Elec. Ill. (Boston) $12	287	4.18
Commonwealth Edison, $8	185	4.32
Peoples Gas Light & Coke (Chicago) $8	174	4.60
New England Tel. & Tel., $8	144	5.56

Holding Companies

	Approx. Price	Approx. Yield %
Public Service Corp. of N. J., $2	53	3.77
Southern California, Edison, $2	47	4.26
Commonwealth Power, $3	70	4.29
Columbia Gas & Electric, $5	107	4.67
American Tel. & Tel., $9	175	5.14
Northern States Power, Class A, $8	135	5.93

HOW THE LOSS OF GOLD AFFECTS AMERICAN FINANCE AND BUSINESS

(*Continued from page* 553)

paying in gold. We may say that we have held such gold in trust against the world's need.

Exporting gold to re-establish the gold standard system throughout the world is certainly to our eventual advantage. No nation has more to gain than the United States from a stable commercial world. If further retention of unnecessary gold here should tend to further credit extension, it might lead to an advance in commodity prices that would make it difficult to compete abroad and would neutralize the protective tariff barrier. The latter would not be considered an unmixed evil by some, but the prevailing political theory is that a great increase of imports would be a disaster.

Presumably the other nations of the world have returned, or are returning, to the gold standard because they believe that in the long run it affords the best currency and the best financial systems. If they are right, our present exportation of gold is for their benefit. The gold we return to them restores order, stability and security in their economic life. Eventually, it tends to increase the markets for our exports and widen the outlets for our surplus capital. Under present tariff conditions, we can keep up our exports only by increasing our foreign expenditures, loans and investments, or importing gold. Eventually, of course, mounting foreign credits will bring gold back to us, if nothing else does, and may finally force cancellation of the government's loans to the Allies; and, then, remodeling of our tariff structure.

We may conclude then, in answer to our four questions:

1. The outflow of gold is not likely to be of long duration.

2. Even if it did continue to its potential limitations, it need not, and probably would not, have a serious, if even a noticeable, direct adverse influence on finance and business in the United States.

3. An outflow of gold, within either automatic or voluntary limitations, is likely to have an ultimate favorable outcome for us, because:

4. It will presumably benefit other nations.

GOLD HOLDINGS OF PRINCIPAL COUNTRIES, 1926
(Central Banks and Governments Only)

	1913	1926
U. S. Treasury and Federal Reserve Banks	$1,290,420,000	$4,079,531,000*
England	170,245,000	735,421,000
France	678,856,000	711,106,000
Germany	278,687,000	436,235,000
Italy	288,103,000	220,732,000
Belgium	59,131,000	86,214,000
Czechoslovakia	....	30,731,000
Netherlands	60,898,000	166,231,000
Russia	786,800,000	84,605,000
Spain	92,490,000	493,489,000
Switzerland	32,801,000	91,050,000
Yugoslavia	11,194,000	16,620,000
Other Countries:		
Canada—Minister of Finance	115,894,000	158,105,000
Argentine Government Conversion Fund	224,989,000	435,880,000

* About $400,000,000 more in circulation.

ESTIMATED MONETARY STOCK OF GOLD IN THE UNITED STATES AND THE AMOUNT PER CAPITA

Fiscal Year Ended June 30	Population	Total Gold Stock	Per Capita
1873	41,677,000	$135,000,000	$3.23
1883	53,693,000	542,732,063	10.10
1893	66,946,000	597,697,685	8.93
1913	97,337,000	1,866,619,157	19.17
1927	116,943,000	4,565,098,136	39.04

Unlisted Public Utility Bonds

Forty Representative Issues

Company	Due date	Callable price	Recent price	Yield
Adirondack Pr. & Lt. Corp. Deb. 5s	1930	101	99	5.26
Alabama Pr. Co. 1st & Ref. 4½s	1967	*102	96½	4.64
Alabama Water Serv. Co. 1st Ser. "A" Gold 5s	1957	*105	97½	5.13
American Pr. & Lt. Co. Deb. 6s	2016	110	107¼	5.57
Appalachian Pr. Co. 1st 5s	1941	105	101½	4.79
Atlantic City Elec. Co. 1st & Ref. 5s	1938	110	102	4.67
Birmingham Water Wks. Co. 1st Ser. "A" 5½s	1954	*105	103	5.25
Blackstone Val. G. & E. Co. Mtg. & Coll. A 5s	1951	*105	102	4.78
Boston Cons. Gas Co. Deb. 5s	1947	105	102¾	4.71
Broad River Power Co. 1st & Ref. Ser. "A" 5s	1954	*105	96¾	5.19
Burlington (Vt.) Gas Light Co. 1st 5s	1955	non-call	101½	4.87
Chicago, No. Shore & Milwaukee R. R. 1st 5s	1936	105	93½	5.79
Citizens Gas Co. of Indianapolis 1st Ref. 5s	1942	108	104	4.53
Commonwealth Edison Co. 1st Coll. 5s	1953	110	105¼	4.59
Dallas Gas Co. 1st 6s	1941	*107½	104½	5.45
Denver Gas & Elec. Co. 1st 5s	1949	105	102¼	4.77
Detroit City Gas Co. 1st Ser. "B" 5s	1950	*107½	101	4.88
Florida Pr. & Lt. Co. 1st 5s	1954	*105	97¼	5.16
Gatineau Pr. Co. 1st 5s	1956	*105	98½	5.06
Great Western Pr. Co. 1st S. F. 5s	1946	106	103¼	4.68
Indianapolis Gas Co. 1st Cons. 5s	1952	non-call	102¼	4.78
Lehigh Pr. Securities Corp. Deb. Ser. "A" 6s	2026	*110	105½	5.65
Los Angeles Gas & Elec. Corp. 1st 5s	1961	*105	100	5.00
Minneapolis Gas Lt. Co. 1st Gen. 5s	1930	105	99½	5.00
Mississippi Power Co. 1st & Ref. 5s	1955	*105	100	5.00
Montreal Lt. Ht. & Pr. Co. 1st Coll. Tr. 4½s	1932	105	97¾	4.97
New Amsterdam Gas Co. 1st Cons. 5s	1948	non-call	98¾	5.04
New Orleans Pub. Service, Inc. Gen'l 4½s	1935	105	93	5.63
Northern Ohio Tract. & Lt. Co. 1st Cons. 4s	1933	non-call	93¼	5.52
Northern States Power Co. 5½% notes	1940	*105	100¾	5.33
Ogden Gas Co. 1st 5s	1945	non-call	103¾	4.64
Oklahoma Gas & Elec. Co. 1st 5s	1950	*105	99½	5.00
Peninsular Tel. Co. 1st 5½s	1951	*105	102½	5.27
Penn Public Ser. Corp. 1st & Ref. "D" 5s	1954	*105	102	4.83
Philadelphia Rapid Transit Co. S. F. 5s	1962	105	97	5.15
Philadelphia Suburban Water Co. 1st 5s	1955	*105	103	4.76
Public Service Corp. of N. J. Perp. 6s	....	non-call	120	5.00
St. Paul Gas Lt. Co. Gen. (now 1st) 5s	1944	non-call	104	4.64
Southeastern P. & L. Co. (ex-warrants) Ser. "A" 6s	2025	*110	106	5.60
Tennessee Pr. Co. 1st 5s	1962	107½	99¾	5.00
United Lt. & Pr. Co. 1st & Cons. 5½s	1959	*107½	99	5.56
Washington Gas Lt. Co. Gen. (now 1st) 5s	1960	non-call	104½	4.69

* Callable price varies.

·SERVICE·SECTION·

ANSWERS TO INQUIRIES

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3. ***Special rates upon request to those requiring additional service.***
4. ***Write name and address plainly.***

HUDSON & MANHATTAN R. R.

On your advice last year I purchased 50 shares of Hudson & Manhattan at 41. Of course I am well pleased with the commitment, but I am wondering if I should take the profit of close to $1,000 available at present. This stock has sold over 70, but is now down 15 points from the high. Do you think it will recover?—H. W. L., Indianapolis, Ind.

Hudson & Manhattan Railroad owns and operates a double tube tunnel system under the Hudson River, between New York City, Hoboken and Jersey City, N. J., it being entirely a passenger railroad, providing rapid transit from Manhattan Island to the terminals of the Delaware, Lackawanna & Western, and Erie railroads, and Pennsylvania Railroad's Jersey City Terminal. Through a traffic agreement with Pennsylvania through service is maintained to Newark, N. J. Hudson & Manhattan's property includes the two Hudson Terminal buildings in downtown New York, which provide large revenue from rentals. Gross income has shown annual increases over a ten-year period, and net has expanded in each year since 1920. While enjoying the benefits of constant municipal growth, the company is not restricted to the 5-cent fare limitation of New York City lines, the road being under the jurisdiction of the Interstate Commerce Commission. Income in 1927 was equal to $4.68 a common share against $4.63 a share in 1926. Bus competition resulting from the opening of the new Holland Tunnel under the Hudson River and the eventual completion of the new Hudson River bridge will doubtless tend to temporarily limit expansion in both gross and net revenues, but potential substantial development of the community territory served augurs well for the future of Hudson & Manhattan. The high price levels attained earlier this year seemed hardly warranted by existing conditions, but on the basis of present quotations we believe retention justified for income and further price appreciation.

ELECTRIC STORAGE BATTERY

I am thinking of purchasing 25 shares of Electric Storage Battery around 75. This stock looks good to me as it will yield well over 6%, and I understand the company has contracts to supply storage batteries to General Motors, Ford, Dodge, etc. Would you advise a commitment at this time?—N. L. M., Orange, N. J.

Despite a general slowing down in the automotive industry last year and the trend away from the use of battery operated radio receiving sets, Electric Storage Battery made a reasonably favorable showing, when profits were equal to $7.08 a common share against $7.33 a share in 1926. The company's new batteryless radio power units have been favorably received which, together with increased activity in the automotive industry, have served to increase earnings in the first half of 1928 over the same period of 1927, although definite figures are not available. At present the company is understood to be furnishing about three-quarters of all batteries in all divisions of General Motors, about one-half of the batteries used by Ford, all those used by Dodge, in addition to supplying batteries used in other cars. On the whole, present indications are that profits in the full 1928 year will range sharply higher than 1927. Capitalization is represented almost wholly by 805,181 no par shares of common stock, being preceded by only $31,400 preferred and an excellent financial position permits the distribution of a major portion of profits as dividends. The shares commend themselves as income media and enhancement possibilities over a reasonable period are favorable.

U. S. INDUSTRIAL ALCOHOL

In the fall of last year I paid $77 a share for U. S. Industrial Alcohol. Naturally I am well satisfied with the paper profit on the stock although I regret that I did not sell around $120. Would you recommend taking the profit of twenty points which is now available to me?—G. W. F., Albany, N. Y.

U. S. Industrial Alcohol ranks as the strongest alcohol producer in the country, earnings of which have averaged better than $10 a common share an-

(Please turn to page 631)

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Did You Take Profits and Check Losses During Recent Market Movements?

SUBSCRIBERS to The Investment and Business Forecast of The Magazine of Wall Street can answer "Yes" to this question. Besides, they have been definitely advised as to the stocks to hold regardless of current fluctuations.

The sound market position which our subscribers are able to maintain at all times is very gratifying to them and to us—especially when we consider that the June break which carried into the current month caused individual losses running into hundreds of thousands of dollars. And these losses in many cases were suffered by prominent leaders of financial thought and market activity.

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THE market is entering an entirely new phase. New opportunities for outstanding market profits will be presented in the next few weeks. To derive the "cream" of these profits you should get in on the movement at its very beginning. We would strongly urge, therefore, that you place your subscription to the Forecast at once.

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(c) analyze your present and contemplated holdings at any time during the entire life of your subscription and tell you what to do with each security you own;

(d) wire you within the next six weeks (in addition to the regular and special advices of the Forecast) individual profit recommendations covering three stocks of which we will keep a card index record and advise you by personal telegram when to close them out. We endeavor to send only one of these recommendations at a time.

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New York Stock Exchange

RAILS

	Pre-War Period 1909-1913 High	Low	War Period 1914-1918 High	Low	Post-War Period 1919-1927 High	Low	1928 High	Low	Last Sale 7/18/28	Div'd $ Per Share
Atchison	125⅝	90⅛	111⅛	70	200	91¾	197⅛	182⅞	186	10
Do Pfd.	106¾	96	102⅛	75	106¾	72	108⅛	102⅛	104¼	5
Atlantic Coast Line	148½	102½	126	79⅞	268	77	191⅛	164	†166	‡7
Baltimore & Ohio	122¼	90⅝	96	88¼	125	27⅝	119⅞	103¾	106	6
Do Pfd.	96	77⅛	80	48¼	83	38⅛	85	79	79⅛	4
B'klyn-Man. Transit	..	..	..	..	77⅞	9¼	77¾	53⅜	64⅛	4
Do Pfd.	..	..	..	..	89⅜	31⅜	95⅝	82	†89	6
Canadian Pacific	283	165	220⅛	126	219	101	223¾	195½	203⅝	10
Chesapeake & Ohio	92	51⅛	71	35⅝	218½	46	205¼	175½	177⅜	10
C. M. & St. Paul	165⅛	96¾	107⅛	35	52¾	3⅛	40⅛	22¼	35⅛	..
Do Pfd.	181	130½	143	62½	76	7	51⅜	37	45⅝	..
Chi. & Northwestern	198½	123	136⅞	35	105	45⅞	94¼	78	79	4
Chicago, R. I. & Pacific	..	..	45⅜	16	116	19⅛	122⅝	106	113	6
Do 7% Pfd.	..	..	94¾	44	111⅜	64	111⅛	106¼	108	7
Do 6% Pfd.	..	..	80	35⅜	104	54	105	100	102	6
Delaware & Hudson	200	147½	159⅛	87	230	83¼	226	163¼	183	9
Delaware, Lack & W.	340	192½	242	160	260½	93	150	129	132⅛	‡6
Erie	61¼	33½	59⅛	18⅜	69⅜	7	66½	48¾	51⅝	..
Do 1st Pfd.	49¾	26¼	54¾	15⅛	66¼	11⅛	63⅞	50	52	..
Do 2nd Pfd.	39⅛	19⅛	45⅝	13⅛	64½	7⅛	62	49¼	†50¾	..
Great Northern Pfd.	157⅞	115⅛	134¾	79¼	103⅞	50⅝	109	93½	96	5
Hudson & Manhattan	..	..	..	..	65⅞	20⅝	73½	51	57⅛	2½
Illinois Central	162⅛	102¾	115	85¾	139⅝	80⅞	148¾	131¾	139	7
Interborough Rap. Transit	..	..	..	..	53¾	9⅛	62	29	38⅝	..
Kansas City Southern	50¼	21⅜	35⅛	13⅛	70⅛	13⅛	63⅛	43	46⅛	..
Do Pfd.	75½	56	65⅛	40	73⅛	40	77	69	69⅛	4
Lehigh Valley	121¼	62⅛	87⅛	50⅝	137½	39⅛	116	84⅛	†95	3½
Louisville & Nashville	170	121	141⅞	103	159⅛	84¾	159⅛	140	140	7
Mo., Kansas & Texas	*51⅛	*17⅛	*24	*3⅛	56⅛	*¾	41⅛	30½	35⅛	..
Do Pfd.	*78¼	*46	*60	*6⅛	109⅛	*2	109	101½	102⅞	7
Missouri Pacific	*77⅛	*21⅛	38⅛	19⅞	62	8¼	69⅝	41⅞	60¾	..
Do Pfd.	..	..	64⅞	37⅛	118⅝	22¼	123⅜	105	114⅛	..
N. Y. Central	147¾	90⅝	114⅛	62⅛	171⅛	64⅛	191⅛	156	161⅜	8
N. Y., Chi. & St. Louis	109¾	90	90⅝	55	204½	23⅜	146	123⅞	125½	6
N. Y., N. H. & Hartford	174¾	65⅝	89	21⅛	63⅜	9⅝	68⅜	54¾	55	1
N. Y., Ontario & W.	55⅜	25⅛	35	17	41¾	14¼	39	24	26⅛	..
Norfolk & Western	119¼	84¼	147⅛	92⅝	202	84¼	197	175	175¼	‡8
Northern Pacific	150½	101⅜	118⅞	75	102⅛	47⅞	105½	92⅝	95⅞	5
Pennsylvania	75⅝	53	61⅛	40¼	68	32¼	72½	61⅞	63⅞	3½
Pere Marquette	*36⅛	*15	38⅛	9⅛	140¾	12⅛	146	124⅞	†129	‡6
Pittsburgh & W. Va.	..	..	40⅜	17¾	174	21⅛	161	121¼	†132	6
Reading	89⅝	59	115⅛	60⅛	123¾	51⅞	119⅜	94¼	99	4
Do 1st Pfd.	46¾	41¼	46	34	61	32⅞	46	42	42	2
Do 2nd Pfd.	58¾	42	52	33¾	*65	32⅛	59⅞	44	†48¼	2
St. Louis-San Fran.	*74	*13	50⅛	21	117¼	10¾	122	109	110⅝	8
St. Louis-Southwestern	40⅜	18⅛	32⅛	11	93	10⅞	91⅝	67½	83	..
Seaboard Air Line	27⅛	13⅛	22⅝	7	54¼	2⅛	30⅛	11⅝	†14½	..
Do Pfd.	56½	23⅛	58	15⅛	51⅛	3	38	19	†18	..
Southern Pacific	139⅛	83	110	75¾	126⅞	67⅛	131¼	117⅝	118⅛	6
Southern Railway	34	18	36¾	12⅛	149	24⅜	165⅝	139⅛	144⅛	8
Do Pfd.	86⅞	43	85¼	42	101⅛	42	102¼	98¼	99	5
Texas & Pacific	40⅛	10¼	29⅛	6⅛	103⅞	14	174⅝	99½	167	5
Union Pacific	219	137¾	164⅜	101¼	197¾	110	204¾	186½	190⅝	10
Do Pfd.	118⅛	79⅝	86	69	85⅛	6¼	87¼	83	84	4
Wabash	*27⅞	*2	17⅛	7	81	6	96¼	51	71⅜	..
Do Pfd. A	*61⅜	*6⅛	60⅛	30⅞	101	17	102	88⅛	†94	5
Do Pfd. B	..	..	32⅞	18	98	12¼	99¼	87	†91	5
Western Maryland	*56	*40	23	9¼	67⅞	8	54¾	31¾	39⅛	..
Do 2nd Pfd.	*88⅛	*53⅛	*58	20	67½	11	54⅞	33½	38⅝	..
Western Pacific	..	..	25⅛	11	47½	12	37½	28¼	30	..
Do Pfd.	..	..	64	35	86½	51½	62⅛	54⅛	55	..

INDUSTRIALS

	Pre-War Period 1909-1913 High	Low	War Period 1914-1918 High	Low	Post-War Period 1919-1927 High	Low	1928 High	Low	Last Sale 7/18/28	Div'd $ Per Share
Adams Express	270	90	154½	42	210	22	378	195	309	6
Ajax Rubber	..	..	89⅛	45⅛	113	4¼	14⅜	7⅛	8⅞	..
Allied Chem. & Dye	..	..	..	..	169⅜	34	182½	146	169⅝	6
Do Pfd.	..	..	..	..	124	83	125¾	120¼	†120⅜	7
Allis-Chalmers Mfg.	10	7⅝	49⅛	6	118⅜	26½	129¾	115⅛	125¼	7
Am. Agric. Chem.	63⅝	33½	106	47⅜	113⅜	7⅛	23¼	15⅝	19⅛	..
Do Pfd.	105	90	103½	89⅛	103	18	75	55⅝	68	..
Am. Beet Sugar	77	19¾	108½	19	103¾	15⅛	19⅛	14⅜	†14⅜	..
Am. Bosch Magneto	..	..	..	..	143⅞	13	41	15⅜	33⅝	..
Am. Can	47⅞	6⅞	63½	19¼	*344½	*21⅜	95⅝	70½	84⅛	2
Do Pfd.	129¼	98	114½	80	141⅜	72	147	136⅜	†140½	7
Am. Car & Foundry	76½	36⅛	98	40	*201	97½	111⅛	90¼	†93	6
Do Pfd.	124¾	107½	119⅛	100	134⅜	105¾	137½	121½	121⅛	7
Am. Express	300	94¾	140½	77½	133	76½	207¾	169	196	6
Am. Hide & Leather	10	3	22⅛	2½	43⅛	5	15⅝	10	†10⅜	..
Do Pfd.	51⅞	15⅛	94⅞	10	142⅝	29⅝	67⅝	40	†43½	..
Am. Ice	..	..	49	8⅞	*139	25¾	41½	28	39¾	2½
Am. International	..	..	62¾	12	132¼	17	125	71	94⅛	2
Am. Linseed Pfd.	47¾	20	92	24	113	4⅛	130⅛	86½	122	7
Am. Locomotive	74¾	19	98¼	46⅝	144⅞	58	115	87	†97¼	8
Do Pfd.	122	75	109	93	127	96⅛	134	114	†120	7
Am. Metal	..	..	..	..	67⅜	36⅛	51	39	48	3
Am. Radiator	*500	*200	*445	*235	*345	64	152¾	130⅛	137	3
Am. Safety Razor	..	..	..	..	76⅝	*3⅛	68⅞	56	59⅞	4
Am. Ship & Commerce	..	..	..	..	47⅛	2⅛	6⅛	3⅞	†4¼	..
Am. Smelt. & Ref.	105½	56⅝	123¾	50¼	183¾	29¼	203¾	169	188⅞	8
Do Pfd.	74½	24⅛	95	44	133	18	142	131	134	7
Am. Steel Foundries	116¾	96¼	118⅞	97	122⅜	41½	70⅝	50⅛	52⅝	3
Do Pfd.	..	..	..	..	115	78	115	109	†112	7

Price Range of Active Stocks

INDUSTRIALS (Continued)

	Pre-War Period 1909-1913 High	Pre-War Period 1909-1913 Low	War Period 1914-1918 High	War Period 1914-1918 Low	Post-War Period 1919-1927 High	Post-War Period 1919-1927 Low	1928 High	1928 Low	Last Sale 7/18/28	Div'd $ Per Share
Am. Sugar Refining	136¾	99⅞	126½	89⅛	143⅝	36	78¼	55	68⅞	..
Do Pfd.	133½	110	123½	106	119	67¼	110½	100	†106¼	7
Am. Tel. & Tel.	153⅝	101	134½	90⅝	185½	92⅛	211	173¼	174½	9
Am. Tobacco	*530	*200	*256	*123	*314½	82½	176	152	157⅞	8
Do Com. B	..	..	..	..	*210	81¼	177	152	157⅞	8
Am. Water Works & Elec.	..	..	..	..	*144	*4	70¾	52	55⅝	‡1
Am. Woolen	40⅝	15	60⅞	12	169½	16½	24¾	18	†18	..
Do Pfd.	107¾	74	102	72½	111⅞	46⅞	62¼	43⅝	44⅝	..
Anaconda Copper	54⅜	27½	105⅜	24¼	77⅞	28½	74⅞	53¾	66⅜	4
Associated Dry Goods	..	..	28	10	140½	39½	48¾	40½	41¼	2½
Do 1st Pfd.	..	..	75	50½	112	49⅞	113⅞	103	†103	6
Do 2nd Pfd.	..	..	49½	35	114	38	119½	110	†112	7
Atl. Gulf & W. Indies	13	5	147¾	4½	192⅝	9¼	59⅞	37⅛	47½	..
Do Pfd.	32	10	74¾	9⅞	76½	6¾	57¼	38	†55	3
Atlantic Refining	..	..	..	..	*1575	78½	145¼	95¾	144¼	4
Austin Nichols	..	..	..	..	40⅜	4¼	9¼	4	5	..
Do Pfd.	..	..	..	..	95	23½	35	29	†25	..
Baldwin Locomotive	60¾	36½	154½	26⅝	265¾	62¼	285	242	†245	7
Do Pfd.	107½	100¼	114	90	125¼	92	124¾	118	†118	7
Bethlehem Steel	*51⅝	*18¾	155½	59¾	112	37	69⅞	51⅜	54	..
Do 7% Pfd.	80	47	186	68	108	78	125	116½	116⅜	7
Brooklyn Edison Electric	134	123	131	87	225	82	268¼	206¾	†240	8
Brooklyn Union Gas	164½	118	138¾	73	157½	41	159¼	139	†138	5
Burns Brothers	45	41	161½	50	147	76	125½	93½	†113	8
Do B	..	..	..	..	53	16¼	43⅜	15⅞	26	..
Butte & Superior	..	..	105¼	12¼	37⅞	6½	16¾	9	11	2
California Packing	..	..	50	30	*179½	48¼	79¾	68½	69⅝	4
California Petroleum	72½	16	42⅝	8	*71⅞	15⅝	32¾	24	†29	1
Cerro de Pasco Copper	..	..	55	25	73½	23	79¼	61½	74	5
Chile Copper	..	..	39¼	11¼	44⅝	7	46¾	37⅜	44¾	2½
Chrysler Corp.	..	..	..	..	*253	38½	88½	54¾	73½	3
Do Pfd.	..	..	..	..	116	100½	117	113⅝	115	8
Coca Cola	..	..	..	..	177¾	18	177¾	127	160⅜	6
Colorado Fuel & Iron	53	22½	66½	20½	96⅝	20	84½	52½	59⅞	..
Columbia Gas & Elec.	..	..	54⅛	14¼	*114⅞	30¼	118⅜	89½	106⅝	5
Congoleum-Nairn	..	..	..	*184⅝	*184⅝	12½	31½	22	22½	..
Consolidated Cigar	..	..	..	..	87¼	11⅜	99	79½	85½	7
Consolidated Gas	*165¼	*114½	*150½	*112½	*145¾	56¾	170¼	119⅞	145¾	5
Continental Can	..	..	*127	*37½	*131¾	34⅜	114⅞	80¼	96¾	5
Corn Products Refining	26½	7⅝	50½	7	*160½	21½	82⅞	64⅜	70½	3½
Do Pfd.	98½	61	113½	58⅛	142¼	96	146¾	138½	†140	7
Crucible Steel	19⅝	6½	109⅞	12¼	*278½	48	93	69¼	70¼	5
Cuba Cane Sugar	..	..	76⅜	24⅞	59⅜	4⅞	7½	5¼	5⅝	..
Do Pfd.	..	..	100½	77¼	87	13½	32⅜	18½	19¼	..
Cuban-American Sugar	*58	33	*273	*38	*605	10⅞	24¼	18⅛	18⅝	1
Cuyamel Fruit	..	..	..	..	74½	30	55¾	50¼	50½	..
Davison Chemical	..	..	..	..	81¼	20⅜	57¼	34⅜	52⅝	..
Dupont de Nemours	..	..	..	..	*360	105	405½	310	377	‡10
Eastman Kodak	*No Sales		*605	*690	*690	70	186	163	174½	‡5
Electric Storage Battery	*64¼	*42	*78	*42¼	*153	37	84⅞	69	76⅝	5
Endicott-Johnson	..	..	..	..	150	44	85	75¼	†77	5
Do Pfd.	..	..	..	..	125	84	125	121¼	†123½	7
Fisk Rubber	..	..	..	..	55	5½	17¾	10⅞	11½	..
Do 1st Pfd.	..	..	..	..	116½	38⅛	91½	70	†69½	7
Fleischmann Co.	..	..	..	..	*171½	46⅛	76⅜	65	68¼	3
Foundation Co.	..	..	..	..	183¾	35½	55¾	42	†42½	..
Freeport-Texas	..	..	70½	25¾	106½	7½	109¼	63¼	67	‡4
General Asphalt	42⅞	15½	39⅝	14¼	160	28	94⅞	68	71¾	..
General Cigar	..	..	..	..	*115¼	46	75⅜	59½	61¼	4
General Electric	188½	129¾	187¼	118	*386½	81	174½	124	149	‡4
General Motors	*51¾	*25	*850	*74½	*282	*8⅛	210	130	189¾	‡5
Do 7% Pfd.	..	..	..	125¾	125¾	95½	127½	123½	124½	7
Goodrich (B. F.) Co.	86½	15½	80¼	19⅝	96½	17	99⅜	68½	75	4
Do Pfd.	109¾	73⅜	116¾	79⅞	111⅛	62½	115⅜	109½	†111	7
Goodyear T. & R. Pfd.	..	..	..	..	72½	5	72½	45⅛	48⅜	..
Do Pfd.	..	..	..	..	99⅛	92⅛	99½	92½	93⅞	7
Granby Consolidated	78¼	26	120	58	80	12	56⅞	39⅛	52½	4
Great Northern Ore Ctfs.	88½	25½	50⅝	22½	52¾	18	25	19¼	20½	1½
Gulf States Steel	..	..	137	58¾	104⅝	25	69	51	†60	..
Houston Oil	25½	8	86	10	175¾	40½	167	119	133½	..
Hudson Motor Car	..	..	..	..	139½	19½	99⅞	75	82	5
Hupp Motor Car	..	..	11	2⅛	36¼	4⅝	65	29	56¼	2
Inland Steel	..	..	..	..	62⅜	31⅛	63	46	54	‡2½
Inspiration Copper	21⅝	13⅞	74¾	14¼	68⅞	20¾	25⅞	18	21¼	..
Inter. Business Mach.	..	..	52⅝	24	*176¼	28¾	147¾	114	118⅞	5
Inter. Combustion Eng.	..	..	..	..	69½	19⅝	72⅜	45¼	58⅛	2
Inter. Harvester	..	..	121	104	255⅝	66¾	290	224¾	264¾	‡6
Inter. Mercl. Marine	9	2⅛	50⅝	⅝	67¾	3½	7⅜	3¾	†4¾	..
Do Pfd.	27⅝	12½	125⅝	8	128⅛	18⅛	44⅝	34¼	36⅜	..
Inter. Nickel	*227¼	*135	57½	24½	89½	24¼	103	73⅝	92½	2
Inter. Paper	19¾	6½	75½	9⅛	91¾	27⅞	86⅜	66	70	2.49
Kelly-Springfield Tire	..	..	85	36⅞	164	9	27⅜	15	19⅞	..
Do 8% Pfd.	..	..	101	72	110	33	84	55¼	†65¼	..
Kennecott Copper	..	..	64¼	25	90⅜	14⅝	95⅜	80½	91⅞	5
Kinney (G. R.) Co.	..	..	..	..	103	19¾	52	38	40½	..
Lima Locomotive	..	..	..	..	76⅜	49	65⅞	48	49	4
Loew's Inc.	..	..	..	..	63⅞	10	77	49⅛	52⅞	3
Loft, Inc.	..	..	..	..	28	5	8	5¾	†6½	..
Lorillard (P.) Co.	*215¼	*150	*239⅞	*144½	*245	23½	46⅞	23¾	26	..
Mack Trucks	..	..	..	..	242	25½	107⅞	83	89¼	6
Magma Copper	..	..	..	..	58¾	26½	56⅜	43¾	49⅞	3
Mallinson & Co.	..	..	..	..	45	8	28⅞	16	18⅛	..
Maracaibo Oil Explor.	..	..	..	..	37½	12	25½	12½	16¾	..
Marland Oil	..	..	..	..	63⅜	12⅛	44½	33	35	..
May Department Stores	*88	*65	*97½	*35	*174¾	*60	85⅝	73	76⅛	4
Mexican Seaboard Oil	..	..	..	..	34⅛	3	39	4⅝	23¾	..
Miami Copper	30¼	12¾	49⅝	16½	32¾	8	22	17⅝	19⅞	1½
Montgomery Ward	..	..	..	..	123⅛	12	164½	117	161	‡4
National Biscuit	*161	*96½	*139	*79⅞	*270	35⅝	182	159½	161½	‡6
National Dairy Prod.	..	..	..	..	81⅞	30½	88⅛	64½	77⅝	3
National Enam. & Stamp.	30¼	9	54½	9	89½	18½	37½	23¼	28	..
National Lead	91	42½	74⅝	44	*202¾	63½	136	115	†116¼	5
N. Y. Air Brake	98	45	136	55⅞	*145¾	26⅝	50½	40	41	3

New York Stock Exchange
Price Range of Active Stocks

INDUSTRIALS (Continued)

	Pre-War Period 1909-1913 High	Low	War Period 1914-1918 High	Low	Post-War Period 1919-1927 High	Low	1928 High	Low	Last Sale 7/18/28	Div'd $ Per Share
N. Y. Dock	40¼	8	27	9¼	70¾	15¼	64¼	47⅛	†48	..
North American	*87⅞	*60	*81	*38⅞	*119½	17½	78⅛	58⅝	69⅜	§10%
Do Pfd.	..	..	..	..	55	31⅞	55⅝	53¼	†54	3
Packard Motor Car	..	..	..	..	62	9⅞	84½	56¼	73⅜	4
Pan.-Am. Pet. & Trans.	..	..	70¾	35	140¼	38⅛	53¾	38¼	41⅛	..
Do Class B.	..	..	..	..	111¾	34⅛	54⅝	37¾	42⅜	..
Paramount-Fam. Players Lasky	..	..	..	..	127½	40	131⅞	111¼	128⅞	8
Philadelphia Co.	59	37	48⅞	21½	153½	26½	174¾	145	†150	‡4
Phila. & Reading C. & I.	..	..	..	..	54¼	34⅛	39¾	27⅞	28½	..
Phillips Petroleum	..	..	..	..	69⅝	16	44⅝	35¼	37⅜	1½
Pierce-Arrow	..	..	65	25	99	6⅛	18⅜	10½	11¾	..
Do Pfd.	..	..	109	88	127¼	13½	62¼	37⅞	54	..
Pittsburgh Coal	*29⅜	*10	58¾	37½	74⅝	29	55	36⅛	47	..
Postum Co.	..	..	..	..	*134	*47	64⅜	61⅜	63½	3
Pressed Steel Car	56	18½	88	17¼	113¾	34⅛	26⅞	18	21¾	..
Do Pfd.	112	88½	109⅛	69	106	67	88	73½	†73½	7
Pub. Serv. N. J.	..	..	..	..	*98⅞	*29	66⅜	41½	54	2
Pullman Inc.	200	149	177	106½	199½	*87¼	94	79½	80⅜	4
Punta Alegre Sugar	..	..	51	29	120	24¾	34⅞	24½	25	..
Pure Oil	..	..	143⅞	81⅞	61⅞	16¼	27½	19	22¼	50
Radio Corp. of America	..	..	..	..	101	25⅞	224	85¼	171½	..
Republic Iron & Steel	49½	15¾	96	18	145	40⅛	69¾	49⅛	52½	4
Do Pfd.	111¼	64½	112⅝	72	106¾	74	112	102	†104	7
Royal Dutch N. Y.	..	..	86	56	123⅜	40⅜	56¾	44⅝	56⅝	2.22
Savage Arms	..	..	119¾	39⅞	108⅜	8⅞	88	60⅝	74	4
Schulte Retail Stores	..	..	..	..	*134⅞	47	67½	49⅞	56⅛	3½
Sears, Roebuck & Co.	*124¾	*101	*233	*120	*243	51	119¾	82⅛	116⅜	2½
Shell Trans. & Trading	..	..	..	..	90¼	29½	51	39⅜	†48	2.425
Shell Union Oil	..	..	..	..	31¾	12⅛	31	23¼	26¼	1.40
Simmons Company	..	..	..	..	64¾	22	73	55¾	59	3
Simms Petroleum	..	..	..	..	28½	6½	25¼	18⅛	†20	..
Sinclair Consol. Oil	..	..	67⅛	25¼	64⅛	15	30¾	17⅜	24¼	..
Skelly Oil	..	..	..	..	37⅛	8⅝	34	25	29⅝	2
Sloss-Sh. Steel & Iron	94⅝	23	93¼	19½	148½	32⅛	134	102	†101	6
Standard Oil of Calif.	..	..	..	..	*135	47½	63⅞	53	58	2½
Standard Oil of N. J.	*488	*322	*800	*355	*212	30⅞	49	37¾	43⅛	‡1
Stewart-Warner Speed	..	..	*100⅛	*43	*181	21	101½	77¼	88	6
Stromberg Carburetor	..	..	45¼	21	118¼	22⅛	74¾	44	†49	2
Studebaker Company	49½	15¾	195	20	*151	30½	82⅜	57	68⅜	5
Do Pfd.	98⅛	64½	119⅛	70	125	76	127	121½	†127	7
Tennessee Cop. & Chem.	..	..	21	11	17¼	6¼	16⅜	10½	13½	50
Texas Company	144	74½	243	112	58	29	66⅜	50	59⅜	3
Texas Gulf Sulphur	..	..	..	..	*184	32⅝	80⅝	14⅛	67⅜	4
Tex. & Pac. Coal & Oil	..	..	..	..	*275	12	17½	12⅛	13⅛	..
Tide Water Oil	..	..	225	165	*195	5½	20¾	14¾	17	..
Timken Roller Bearing	..	..	..	..	142½	28⅛	134	112⅝	119¼	5
Tobacco Products	145	100	82⅝	25	117⅝	45	118⅛	97½	99⅛	..
Do Class A	..	..	..	..	123⅞	76	128	113	†113	7
Transcontinental Oil	..	..	..	.	62⅝	1¼	10⅛	6¾	7½	..
Union Oil of Calif.	..	..	..	..	58⅜	33	57	42¾	50⅝	2
United Cigar Stores	..	..	*127⅞	*8⅜	*255	42½	34⅝	25	25½	.80
United Fruit	208½	126½	175	105	*294	95¾	146¼	131½	136	‡4
U. S. Cast I. Pipe & F.	32	9¼	31⅞	7¾	250	10½	300	190½	†220	10
Do Pfd.	84	40	67½	30	125	38	137	115	125	7
U. S. Indus. Alcohol	57¼	24	171½	15	167	35½	122¼	102⅛	108⅝	5
U. S. Realty & Imp.	87	49¾	63⅜	8	*184½	17	93⅝	61¼	79⅝	4
U. S. Rubber	59½	27	80⅛	44	143¾	22½	63¼	27	30⅛	..
Do 1st Pfd.	123½	98	115½	91	119½	66½	109⅜	55	62¼	..
U. S. Smelt., Ref. & M'n.	59	30⅜	81½	20	78¼	18⅜	52	39½	46⅛	3½
U. S. Steel	94⅞	41¼	136⅝	38	160½	70¼	154	132⅜	136⅜	7
Do Pfd.	131	102½	123	102	141¼	104	147¼	138⅝	141	7
Vanadium Corp.	..	..	..	..	97	19⅛	96	60	70⅞	4
Western Union	86¼	56	105½	53⅜	176	76	177½	139½	143⅜	8
Westinghouse Air Brake	141	132½	143	95	*198	40	57⅜	42⅛	45⅛	2
Westinghouse E. & M.	45	24¾	74⅞	32	94¾	38⅞	112	88⅛	92⅜	4
White Eagle Oil	..	..	..	..	34	20	26⅜	20⅛	23	1
White Motors	..	..	60	30	104½	29¼	43¾	20¼	36½	1
Willys-Overland	*75	*50	*325	15	40¼	4⅛	28⅝	17¾	20⅞	1.20
Do Pfd.	..	..	100	69	123⅞	23	101½	92¾	98⅜	7
Wilson & Co.	..	..	84¼	42	104⅞	4⅛	16½	11½	†13¼	..
Woolworth (F. W.) Co.	*177⅞	*76½	*151	*81½	*345	72½	196¾	175½	181	5
Worthington Pump	..	..	69	23½	117	19	37⅜	28	32	..
Do Pfd. A	..	..	100	85⅞	98⅛	44	58¼	46¼	†49	..
Do Pfd. B	..	..	78⅜	50	81	37	51	41	†41	..
Youngstown Sh. & Tube	..	..	..	..	100⅛	59¾	106⅞6	83½	86½	5

† Bid price. ‡ Not including extras. § In stock. * Old stock.

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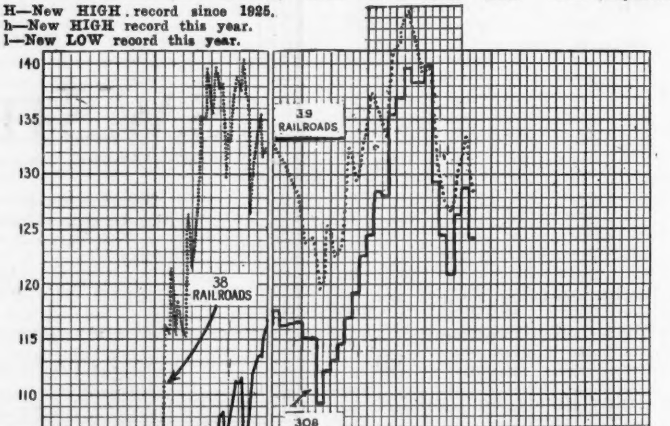
Securities Analyzed, Rated and Mentioned in this Issue

THE MAGAZINE OF WALL STREET'S COMMON STOCK PRICE INDEX

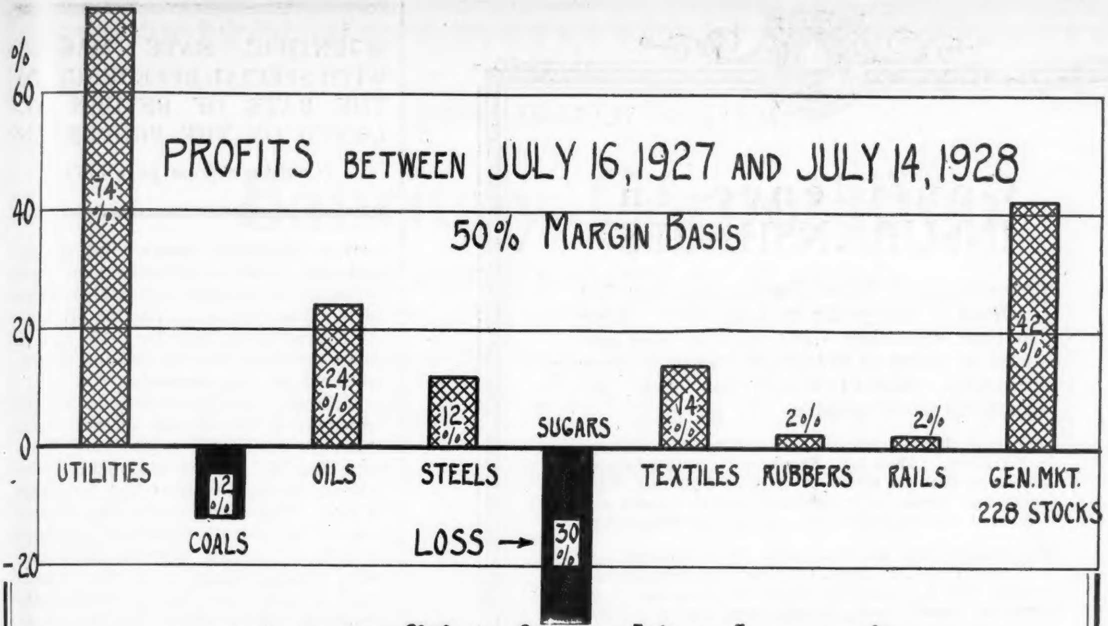
(1925 Closing Prices = 100)

Number of Issues in Group	Group	1928 Indexes (308 Issues) High	1928 Indexes (308 Issues) Low	Recent Indexes July 7	Recent Indexes July 14	1927 Indexes (264 Issues) Close	1927 Indexes (264 Issues) High	1927 Indexes (264 Issues) Low
308	COMBINED AVERAGE	139.9	109.2	128.9	124.1	116.3	116.3	95.7
39	Railroads	144.6	119.5	133.3	128.5	132.0	140.2	98.5
2	Agricultural Implements	360.6	230.5	360.6 h	341.4	300.0	(Begun 1928)	
2	Alcohol	177.6	135.1	145.8	141.0	172.1	175.3	82.1
12	Automobile Accessories	134.6	86.4	119.8	115.3	91.6	96.8	75.6
17	Automobiles	111.2	79.0	98.2	92.0	89.8	89.8	70.1
2	Baking (1926 Cl.—100)	76.1	56.8	57.0	56.8 l	69.4	100.6	53.0
2	Biscuit	194.5	169.7	175.8	170.2	187.0	(Begun 1928)	
4	Business Machines	190.0	153.7	175.8	172.8	159.1	160.2	108.5
2	Cans	155.8	117.2	142.1	135.7	119.9	119.9	77.3
4	Chemicals & Dyes	190.6	158.5	179.4	177.2	166.1	168.9	132.0
2	Coal	108.0	81.8	96.3	88.6	108.0	(Begun 1928)	
12	Const. & Bldg. Material	111.7	94.4	106.5	101.3	99.5	101.3	78.9
12	Copper	199.0	159.8	185.0	180.8	177.8	179.5	105.9
2	Dairy Products	132.5	68.1	98.1	90.2	70.4	80.0	59.8
3	Department Stores	75.7	62.9	74.6	73.0	68.0	86.0	64.5
7	Drugs & Toilet Articles	186.5	157.2	180.5	173.5	162.0	171.2	147.3
5	Electric Apparatus	153.1	125.6	137.6	134.5	129.6	129.6	97.6
3	Fertilizers	97.5	78.4	90.0	86.9	84.0	85.7	47.8
2	Five & Ten Cent Stores	108.8	98.0	104.6	102.0	106.8	111.5	69.6
3	Furniture	136.8	111.0	116.6	111.1	127.4	127.4	89.1
5	Household Appliances	112.7	91.6	100.7	98.4	97.0	(Begun 1928)	
2	Mail Order	198.9	147.9	198.9 H	194.6	149.3	152.3	82.8
4	Marine	96.5	66.8	80.3	74.5	74.9	113.4	69.5
5	Motion Pictures	146.3	98.3	128.9	124.4	102.9	120.3	96.8
36	Petroleum & Natural Gas	148.1	86.1	126.4	120.4	95.6	103.5	86.9
17	Public Utilities	173.0	127.9	160.0	154.0	129.5	132.5	93.1
10	Railroad Equipment	128.9	113.2	116.5	114.5	128.9	128.9	100.3
2	Restaurants	116.4	89.8	110.0	107.5	104.0	(Begun 1928)	
3	Shoe & Leather	231.4	138.3	206.0	214.6	138.3	152.3	69.8
2	Soft Drinks (1926 Cl.—100)	208.1	152.9	201.2	196.0	152.9	(Begun 1928)	
11	Steel & Iron	110.7	86.3	99.2	95.6	88.7	92.0	74.8
6	Sugar	93.7	73.0	81.1	79.9	89.5	112.7	76.9
2	Sulphur	388.9	278.0	306.5	293.6	381.7	381.7	166.1
2	Telephone	147.6	120.8	134.1	130.1	123.8	127.1	104.6
4	Textiles	105.9	78.6	81.5	80.0	79.0	106.5	71.9
7	Tire & Rubber	99.6	61.5	65.8	66.2	96.6	97.8	64.4
8	Tobacco	195.0	167.8	173.7	168.5	190.3	193.6	159.9
4	Traction	150.4	103.8	117.9	116.5	107.6	130.0	107.6
42	Unclassified (1927 Cl.—100)	128.8	98.2	116.3	111.2	100.0	(Begun 1928)	

H—New HIGH record since 1925.
h—New HIGH record this year.
l—New LOW record this year.



(An unweighted Index of weekly closing prices specially designed for investors. The 1928 *Index includes* 308 *issues, distributed among* 38 *leading industries, and covers about* 90% *of the total transactions in all Common Stocks listed on the New York Stock Exchange. It is compensated for stock dividends, rights and assessments; and reflects all important price movements with a high degree of accuracy. Our method of making annual revisions in the list of stocks included, renders it possible to keep the Index abreast with evolutionary changes in the market, without impairing its continuity or introducing cumulatively inaccuracies.)*



are you profiting from this advance in

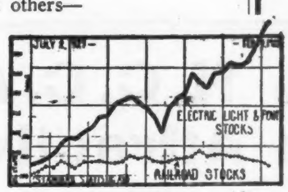
Electric Light & Power Stock?

Note these different stock groups, as motors, oils, rubbers, etc.—which has been showing the most profit?

- Over months past, at a time most persons overlooked them, the American Securities Service has again and again pointed out the sound position and possibilities for real profit in electric light and power stocks.
- Compare the results, what different stock groups have done. Whereas steel stocks, if bought on a conservative margin of half their cost price and held the past year, show 12% profit—coal and sugars a loss—these electric light and power stocks show a 74% profit.

Sound security considered, these electric light and power issues have been the choicest stocks on the board.

- Market conditions are selective. Certain stocks are simply doing better than others—in the same market. See for instance—in diagram at right, during July to February how utilities forged ahead of rails. Note on diagram at top how electric light and power stocks show 32% more profits over the year than the general market average.
- During four years now, the American Securities Service has been recommending more electric light and power stocks than any other one group—and *every purchase has shown a profit.*



What further profits ahead now?

- While various stocks in other groups are now high, and unsafe, certain sound electric light and power stocks offer fine promise, yet.
- These particular stocks are described, and the whole electric light and power outlook analyzed with care, in another special report just prepared for our clients. This report should prove valuable, as our previous reports have been. A few extra copies reserved for distribution, free, as long as the supply lasts.

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SCIENTIFIC RATE MAKING WITH SPECIAL REFERENCE TO THE RATE OF RETURN ALLOWED ON THE PROPERTIES

(Continued from page 597)

between individual issues. But the actual cash funds contributed have been expended in property at a high price basis. This has been true for all capital expenditures back to 1917, and in many cases affects the bulk of the investment in the properties.

Although these securities have been issued at a time of low interest rates and high prices, the actual rate of return that had become accepted for rate-making during the preceding five years is high. Consider now during the next five or ten years a downward revision in rate of return allowed, then consider also a reduction in the general level of prices, and finally compute the combined effect upon the return allowed upon a property constructed during the high price period of the past five or ten years. If the properties have been constructed preponderantly during this high price period, then while the present stock equities and returns are high, ultimately they will inevitably be reduced; there will be losses to investors and impaired financial standing of the entire business.

Who Opposes Exact Standards? In conclusion, let us restate that under present standards, the practical difficulties of rate making, the incongruities between investment and return, and the financial instability imposed upon the utilities, are all indefensible upon grounds of long-term policy. They happen to be advantageous to certain groups at the present time. The interests that are now benefiting greatly from the uncertainty and the confusion are small in number, and have in the aggregate little actual investment of their own at stake. They are not concerned with the responsibilities of operation, and have no interest in the consumers or the real investors. They must be kept distinct both from the actual management of the properties and from the actual investors in the great mass of securities through which the funds for the public service have been obtained. They are distinctly an extraneous speculative group in the utility field.

It is this group which is primarily responsible for the activities and propaganda which have been disclosed during the recent months by the Federal Trade Commission. By their activities, they make the work of the operators more difficult, bringing upon the management the ill will that the real operators do not deserve, and are doing the real investors great harm. They do not constitute a *bona fide* group in the public utilities. They

CONSOLIDATED STATEMENT

Bancitaly Corporation

(NEW YORK—SAN FRANCISCO—LOS ANGELES)

CHICAGO — LONDON — PITTSBURGH — CLEVELAND — BALTIMORE

and its Real Estate Investment Subsidiary

CAPITAL COMPANY

AT THE CLOSE OF BUSINESS JULY 19, 1928

ASSETS

CASH IN BANKS & CALL LOANS		$ 20,485,751.68
BILLS and ACCOUNTS RECEIVABLE		12,293,695.56
INVESTMENTS		
SECURITIES {This amount is below cost or market price whichever is lower.}		254,972,867.07
BUSINESS PROPERTIES	$7,777,363.44	
Less Mortgages	770,031.18	7,007,332.26
SUBSIDIARIES		184,304.20
TOTAL ASSETS		$294,943,950.77

LIABILITIES

CAPITAL STOCK	$130,000,000.00
*SURPLUS AND UNDIVIDED PROFITS	149,971,328.36
CAPITAL INVESTMENT	$279,971,328.36
RESERVES: For Taxes, Contingencies, etc.	13,497,622.41
Foundation of Agricultural Economics, University of California	1,475,000.00
TOTAL LIABILITIES	$294,943,950.77

Dividends have been paid continuously since date of organization: 6% per annum having been paid to June 30, 1920; 7% per annum from July 1, 1920, to December 31, 1922; 8% per annum from January 1, 1923, to June 30, 1925; 9% per annum from July 1, 1925, to June 30, 1926; Special Christmas Dividend of $3.00 [$715,410.00] paid December 15, 1925; on April 10, 1926, the par value of the stock was reduced from $100 to $25 per share, a stock dividend of 25% was declared; July 29, 1927, a stock dividend of 40% was declared; September 24, 1927, a stock dividend was declared of 14 2/7%. The dividend rate of $2.24 per share was continued on all stock issued under stock dividends.

*No profits in connection with the transaction involving The Bank of America N.A., Bowery and East River National Bank and Commercial Exchange National Bank are included in this figure.

are not a part of the consuming public; they are not a part of the management; they are not a part of the real investors. By means of a negligible percentage of the actual money contributed to utility upbuilding, they have obtained financial control, and are using their power against the development of ultimately sound policies and methods of regulation.

It is to the interest of all the real parties to the public service to put an end to the present indefiniteness of principle and inadequacy of methods. All have a real community of interest, which can be preserved only through sound policy and effective machinery of regulation. If their common interests are not thus preserved, all parties will be adversely affected; the management and investors are certain to suffer in as great a proportion as the consumers. Let the defects of our present mode of regulation continue, then private ownership and operation will be increasingly on the defensive and will certainly be doomed.

It is the chaotic condition of regulation which more than anything else today works for public ownership and operation. Any group that uses its power to perpetuate these unsatisfactory conditions, is in reality the strongest force in that direction, notwithstanding its avowed purpose to oppose that movement. All intelligent friends of private ownership and operation will bestir themselves to help place regulation upon a sound and effective basis.

TRACTION BONDS — BARGAIN OR HIGH RISK?

(*Continued from page* 609)

$39,676,000, the highest figure for any year since the war except 1924, the largest issue having been sold to yield 5.70% and the second largest an even 5%. Bonds in default at the end of 1927, amounted to $264,371,175, but out of this amount approximately $148,000,000 represented Chicago surface line issues on which default of principal occurred February, 1927. This is a very special situation and is due entirely to the fact that owing to political complications, the franchise which expired the same day as the bonds matured, was not renewed in time, the Illinois state law forbidding franchises to be granted for more than 20 years. Total interest charges are being earned by a substantial and increasing margin, and interest is actually being paid by court order on a number of the issues involved. Omitting this very special situation, defaults amounted to $116,000,000 against $180,000,000 in 1926.

The facts that defaults have occurred in some issues, together with the weak spots still remaining because of low fares, uneconomic mileage, local franchise difficulties and the like, have created the unfavorable investor psy-

chology previously referred to which makes available the current high returns on many traction bonds which must be considered sound on their own merits.

It is a reasonable inference from the foregoing facts that the investor who is interested in the maximum rate of return consistent with safety cannot afford to dismiss the traction bonds as a group without examination, and that a number of sound issues of this class really represent bargains rather than unattractive risks.

THE GAS INDUSTRY TURNED SALESMAN

(*Continued from page* 592)

ond element, intelligent buying, must strike a responsive chord in the breast of every utility merchandiser who has gained costly experience in what might facetiously be termed "The Perils of Purchasing" or "Why Doesn't the Turnover Turn?" Turnover has been referred to as the measure of merchandising efficiency. Gross and net profit per dollar of invested capital are largely dependent on the rapidity of turnover.

Prior to a few years ago little or no thought was given to location of gas company offices from the standpoint of merchandise sales. It is gratifying to note that utilities all over the country are moving their stores to better locations. In many instances they are competing actively with chain stores for the best corner on the principal street in town.

Adjustment to its markets; finding and serving the public needs, the fifth essential of successful merchandising, strikes a note in the technique of merchandising which many utility merchandisers have apparently overlooked.

By a careful market survey and analysis, the utility merchandiser can determine his most effective line of action and by an occasional check up can hold himself rigidly to it. Some time ago I had occasion to visit a gas company, which, while it was making a good showing in merchandise volume, was failing to build up its domestic revenue. I found that this company was operating in a community which had close to 100% saturation in gas ranges. The company's merchandise volume was found to be made up chiefly of gas ranges which, of course, were principally replacements. Comparatively few water heaters were being sold. The result was that they were like a man rowing upstream, working hard and getting no place.

This company's efforts were redirected toward the intensive sale of water heaters, and while merchandise volume fell off somewhat, their domestic revenue immediately started to climb. This mistake is quite common among gas companies and is a result, in most cases, of too much stress on merchandise volume.

Cooking schools have been used very effectively in the development of gas consumption, but we should not stop there. Schools conducted on a broader scale and including all the services in the home for which gas can be used, such as hot water supply, the home laundry and househeating, as well as cooking, are effective. This same thought should be carried through advertising and sales promotion work generally, selling not the appliance itself but what it can do *for the customer.*

Every gas company becoming a united selling organization, ridding itself of the idea that selling is a function of the sales department alone. The gas industry must develop an industry sales consciousness extending from the chief executive down to the last laborer on the coke pile.

Henry Ford has developed a gigantic organization and made himself one of the most famous men in the world today largely because every last man in his employ is out selling Henry Ford. When the gas business gets ready to throw off the shackles of tradition and go out and sell its service and its industry, we can expect similar results.

SOME CRITICISMS OFFERED BY THE OPPONENTS OF THE PUBLIC UTILITY HOLDING CO.

(*Continued from page* 601)

effects are concerned, the most important.

The second issue is that of the presentation of the general problems affecting the industry as a whole. This must be done by the industry itself for who knows the industry as well. Critics, it is true, object to this method of handling this problem but it must not be forgotten that a public utility eventually damages its own interest if it deceives the public. Unquestionably certain details in such presentations do creep in as with the handling of any great problem which the critic can always magnify to suit his own convenience but no industry is going to deliberately set itself up to defeat its own purpose by a fallacious presentation of its major problems to the public.

If we are to have a clear understanding of the public utility holding company problems we need to know both sides of the case. Further, if public utility managements are aware that certain facts presented by propagandists are fallacious and economically unsound, are they not under obligation to present to us the facts in the case? *The industry has become a fundamental necessity to our economic existence, consequently its continued and largest possible success is of equal concern to the industry, the investor and the users of its service. This can be best preserved in preventing the creation of any legislation that endeavors to interfere with the managerial functions of an industry.*

ANSWERS TO INQUIRIES

(*Continued from page 618*)

nually in the ten-year period from 1917 to 1926, inclusive, although profits underwent a sharp decline in the latter year, being equal to only $2.32 a share (excluding profit on sale of certain securities). However, despite a continuation of unsatisfactory trade conditions throughout 1927, income rose to $7.26 a share and while interim statements are not published further improvement is expected in the full 1928 year. Financial position is strong, and following suspension of common dividends in November, 1921, payments were resumed in February, 1927, at the present annual rate of $5 a share. Control of the company was obtained, last year, by interests closely identified with the strong Air Reduction Co. and this may be regarded as a constructive development. However, the recent tendency toward improvement in the company's affairs and visible prospects seem rather fully reflected in present prices, so that the shares seem attractive more for the long pull than the near term.

ENDICOTT-JOHNSON

I am holding 25 shares of Endicott-Johnson for which I paid 77. Would you counsel retention of this stock as an investment? I have read that the report of this company for the first six months of this year should be very satisfactory. Is there any possibility of an increase in dividend in the near future?—F. P. B., Binghamton, N. Y.

Endicott-Johnson ranks as the country's second largest shoe manufacturer, being an exceptionally compact and integrated enterprise, tanning close to 90% of its leather requirements, in addition to producing rubber soles and heels. Reflecting unsatisfactory trade conditions profits declined somewhat in 1926 to a balance of $5.92 a common share against $7.37 a share in 1925, but through greater diversification in its lines and improved merchandising methods, a sharp recovery was registered last year to $8.68 a share. Both volume of advance orders and operations have been well maintained in the current year to date, and higher costs of raw materials have been offset by 20 to 25% advances in shoe prices, so that profit margins have been protected, and it is understood that income for the first six months this year exceeded the balance of $3.20 a share reported in the first half of 1927. A sharp recovery and the present strong tone in hide prices forms a basis for confidence regarding the leather and shoe industry, and present indications are that Endicott-Johnson will enjoy sustained activity throughout the year, with the likelihood of bettering its earnings performance of last year. Financial position is strong, but as a conservative measure directors are likely to defer action in the near future regarding any upward revision in dividends. Nevertheless, a fair income

is afforded at the present prices, and the shares seem conservatively priced.

GREAT NORTHERN RAILWAY

Would you advise buying Great Northern Ry. Pfd. around current levels? Is it likely that this stock may go on a $6 dividend basis before the end of this year? What are the merger possibilities of this road?—L. W., M. D., Jersey City, N. J.

In our opinion, investors seeking a sound income producing medium as well as one offering prospects of gradual appreciation in value over a period of time, would be justified in giving favorable consideration to Great Northern preferred. 1928, on the basis of results reported to date, bids fair to be one of the most profitable in the history of the road. Reliable estimates place earnings for the current year at something approximating $9.70 per share of preferred stock and with all classes of freight except coal and coke, which constitute a relatively small proportion of the total, running ahead of last year, these estimates do not seem likely to be substantially altered by actual results. It is therefore apparent that the present $5 dividend not only rests on a sound foundation but considerable weight is given to the possibility of an increase. However, we are not inclined to believe that any action in that respect will be taken pending a decision on the proposed consolidation of the road, with the Northern Pacific and the Chicago, Burlington & Quincy. Developments along that line are not likely to materialize until late this year. Weighing all of the known factors and giving proper consideration to future prospects as they now shape up, we would readily endorse commitments at this time particularly so as Great Northern preferred impresses us as an issue, the value of which, has not been over-extended by speculative enthusiasm.

AJAX RUBBER

What are the prospects for Ajax Rubber? I have a substantial number of shares of this stock bought in 1926 at 15. As yet I have not had a chance to get out even. What would you suggest?—H. F., Grantwood, N. J.

Ajax Rubber ranks as one of the smaller manufacturers of automobile tires and casings, and following acquisition of control, as of January 1, 1928, of the McClaren Rubber Co., capitalization is now represented by $2,518,000 funded debt and 819,500 shares no par capital stock. Operating results in recent years have been far from impressive, a deficit of $1,990,698, after interest payments, being suffered in 1927 against a loss of $292,808 in 1926. At latest reports the company was free of bank loans, but with inventories of $4,064,200, at the end of 1927, equal to over 50% of total current assets, it is likely the enterprise has not wholly escaped the ill effects of the drastic decline in crude rubber prices this year. Further, under the highly competitive conditions prevailing and with

lower tire prices 1928 is practically certain to prove another unsatisfactory year. Financial position is fair and with closer coordination of operating units, together with plant improvements, Ajax's position might eventually become greatly strengthened, but pending definite indications of its ability to achieve something resembling substantial and lasting earning power, we see little in the situation to warrant enthusiasm, and believe liquidation of your holdings advisable.

B. F. GOODRICH

My 100 shares of B. F. Goodrich has caused me a great deal of worry in the past six weeks. I paid 95 for my stock last year and now have a loss of over $2,000. Do you believe that we have seen the worst in the rubber situation? If so, would you advise taking on another block of Goodrich in order to bring down my original cost?—I. A. L., New Orleans, La.

It is a foregone conclusion that operations of B. F. Goodrich Co. for the first six months of the current year will show a deficit, as the result of a complete writeoff of inventory losses sustained earlier in the year following a drastic decline in crude rubber prices. It has been estimated that the loss will be in excess of $5 millions after interest and dividends. This compares with an operating profit of about $9 millions in the first half of 1927. It is understood, however, the management has been following a very cautious attitude with regard to inventory commitments and stocks on hand as of June 30th are reported to have been lower than at any time in the company's history. Despite a substantial decline in earnings in the first six months, dividends are to be regarded as resting on a reasonably sound foundation, particularly in view of the unquestionably sound financial position of the company and the satisfactory outlook for the remainder of the year. The company, in the past, in spite of exceedingly keen competitive conditions which have prevailed in the rubber industry, resulting in numerous price cuts and a consequent reduction of profit margins, has given a very favorable account of itself and we rate the shares as having well defined merit for the longer pull. Under the circumstances, our advice to present shareholders would be to retain, although it might be well to await concrete evidence of a turn for the better before making additional purchases.

GENERAL MOTORS

The recent erratic movements in General Motors have made me somewhat uneasy regarding my holdings of 50 shares for which I paid 110 and on which my profit has been greatly reduced. Do you think this stock is going to work gradually lower? I should not want to lose the opportunity of taking such a big profit but I am not averse to holding it indefinitely if its future is still bright.—B. L. M., Orange, N. J.

In the first half of the current year General Motors Corporation accounted for approximately 45% of automobile production in the United States and Canada. The company has had a highly profitable record practically since organization and in 1927 sales

Bonds Called for Redemption

(g) Guilders—Redemption in U. S. Currency.

Company	Rate	Maturity	Amount	Price	Redemption Date
Abitibi Power & Paper Ltd., gen....	6%	1940	$3,523,000	105	July, 1928
Aluminum Co. of Amer. deb.	5%	1952	$20,000,000	105	Sept., 1928
Amer. Agri. Chemical 1st ref. ser. "A"	7½%	1941	$2,500,000	103½	Aug., 1928
American Ice 1st r. e.	6%	1942	$5,037,000	102½	Aug., 1928
American Rolling Mills Co...........	6%	1938	All bonds	104½	July, 1928
Argentine Nation internal	4½%	1888	$410,000	100	Sept., 1928
Bankitaly Mortgage 1st r. e. coll....	5½%	1947	All bonds	103	July, 1928
Beaver Board Cos. notes..............	8%	1933	$4,262,000	103	July, 1928
Central Public Service Company.....	6½%	1929	All bonds	101	July, 1928
Cespedes Sugar 1st	7½%	1939	$77,000	105	Sept., 1928
Chic., Burl. & Quincy R. R. eq. nts..	6%	1929-35	$2,858,000	103	July, 1928
Chic., Mil. & St. P. Ry. 10 yr. 1st sec.	6%	1934	$14,000,000	102¾	July, 1928
Childs, R. E., ser "A" & "B" gold bds.	—	1929-32	V.B.	110	Sept., 1928
Chile (Republic of), ext. 20-year....	8%	1941	$24,000,000	110	Aug., 1928
Chile (Republic of) Ry. ref. s. f. ext.	6%	1961	$230,000	100	July, 1928
Chinese Gov't.	5%	1952	$427,000	100	Sept., 1928
Cities Service ref. deb.	6%	1966	$24,545,000	104	Nov., 1928
Comm'lth Light & Pow. 1st.	6%	1947	All bonds	105	Nov., 1928
Consumers Power 1st	6%	1934	$249,000	103	July, 1928
Fisk Tire Fabric 1st 10 yr.	6½%	1935	$41,000	102½	July, 1928
Houston Gulf Gas 1st	6%	1931	$5,700,000	103	July, 1928
Houston Gulf Gas 2 yrs. sec. nts	6%	1929	$2,500,000	100	Oct., 1928
Laurentide Pow. gen. s. f. ser. A......	5½%	1946	$17,000	101	July, 1928
Lehigh Coal & Nav. cons. ser. A. & B.	4½%	1954	$10,000	105	July, 1928
Liquid Carbonic 1st mtg. cv. s. f.....	6%	1941	$56,000	105	Aug., 1928
Marconi Wireless Tel. Ltd., deb.....	6½%	1932	All bonds	105	Oct., 1928
N. Y. Central Elec. 1st ser	5%	1952	E. S.	105	July, 1928
N. Y., N. H. & H. R. R. eq. nts....	6%	1929-35	$2,663,000	103	July, 1928
N. Y. Telephone 30-yr. deb.	6%	1949	$269,000	110	Aug., 1928
Northern Ont. Lt. & Pow. 1st mtg.....	6%	1946	$81,000	101½	July, 1928
Oil Well Sup. Inv. 5-yr. coll. tr. nts..	5½%	1932	$2,400,000	102	Sept., 1928
Panama (Rep.) ext.	5%	1944	All bonds	105	Nov., 1928
Panama (Rep.) ext. sec.	6½%	1956	All bonds	103	Dec., 1928
Panama (Rep.) ext.	6½%	1961	All bonds	103	Dec., 1928
Pan-Amer. Pet. & Trans. 10-yr. cv....	6%	1934	$452,000	103	Aug., 1928
Paris-Orleans R. R. Company	7%	1954	All bonds	103	Sept., 1928
Penn. R. R. eq. tr.	6%	1929-35	$27,258,000	103	July, 1928
Phila. Co. 1st ref. & Coll. tr..........	6%	1944	$12,035,000	103½	Aug., 1928
Portland, Ore., imp. bds.	6%	——	V. B.	N. S.	July, 1928
Rutland R. R. eq. nts.	6%	1929-35	$115,000	103	July, 1928
St. L.-San Fran. Ry. P. L. Ser. D....	5½%	1942	$17,173,000	102½	July, 1928
St. L.-San Fran. Ry. Adj. Ser A....	6%	1955	$40,533,000	100	July, 1928
Schulco Co., Inc., gtd.	6½%	1946	$12,000	103	July, 1928
Schulco Co., Inc., gtd. "B"	6½%	1946	$14,000	103	July, 1928
Southern Cal. Ed. gen. & Ref.	5½%	1944	$10,225,000	105	Aug., 1928
Swift & Co., 1st	5%	1944	$1,000,000	102½	July, 1928
Union Oil of Cal. 1st l. s. f. ser. "A"	5%	1931	$813,000	102½	July, 1928

V. B.—Various Bonds. E. S.—Entire Series. N. S.—Not stated.

and earnings established a new high record. Moreover, it seems likely at this time that profits in the current year will exceed those of 1927. Preliminary estimates have indicated earnings equivalent to something in the neighborhood of $8 to $9 per share on the common stock for the first six months, on which basis it would not be surprising if profits for the full year aggregated $15 per share. Dividend policy is liberal, in view of which fact extra disbursements may be expected. The recent decline in the market value of the shares does not appear to have been the result of any fundamental change in the company's position or outlook but rather the outcome of an adjustment of security values following a period of speculative excesses. Competition in the industry is intensive, to say the least, and likely to remain so, but General Motors with a product in every price group, an extensive sales organization and an unquestionably sound financial condition gives ample assurance of its ability to maintain a satisfactory trade position with profits and earnings compatible therewith. If you are willing to overlook day-to-day fluctuations, the future should witness further enhancement in the profits which your commitment now shows you.

F. W. WOOLWORTH

Last year I bought F. W. Woolworth, common, around 192 chiefly for price appreciation. Now the stock is selling below 180— near its low for the year. What is the reason for the decline? Would you hold or close out?—A. R. S., New York, N. Y.

The shares of F. W. Woolworth Co. are favorite speculative media and as such are subject to sharp fluctuations in market value. From an investment standpoint, however, holders might well disregard transitory movements in the light of the company's excellent and well defined prospects for continued expansion both in scope of activities and earning power. The company is by far the largest and strongest of the various chain store systems engaged in retailing moderate priced merchandise and it is also noteworthy that inventory turnover and margin of profit is greater than any other prominent chain store system. Reported sales for the current year to June 30th show a gain of nearly 8% over the corresponding period of 1927 and 56 new units have been placed in operation. Expansion of the company's field to include foreign countries affords a source of considerable potential income and in addition to providing an equity in one of the country's most successful industrial enterprises, the shares have hidden asset value represented by the sub-

stantial appreciation in realty and leaseholds owned by the company for which no allowance is made in the balance sheet. The shares generally sell on a basis to discount future prospects a considerable distance ahead and income return is small, but in view of the company's very favorable outlook, we would not be inclined to discourage retention of long pull commitments.

WORTHINGTON PUMP & MACHINERY

In April as a speculation I bought 200 shares of Worthington Pump at 35. This stock now shows me about a five point loss. Would you suggest that I continue to hold or make a switch? —B. M. N., Los Angeles, Calif.

Worthington Pump & Machinery Corporation common shares are not entitled to other than a speculative rating and as such involve more than the average element of risk. The company, however, is not without long range prospects and if you are willing to forego a return on your invested funds and hold the stock for a sufficient period of time to enable the company to adjust itself to present day conditions, we would say that we have confidence in the ability of the management to eventually rehabilitate the company's earning power to the ultimate benefit of shareholders. The company is an important manufacturer of heavy machinery products and confronted with a slack demand in late years from the shipping, railroad, oil and power industries, earnings have been insufficient to cover preferred dividends in five of the past seven years. Intensive competition and heavy expenses entailed in connection with the development of new lines are other factors which have served to retard earnings. However, in spite of the unfavorable trend of earnings, a sound financial position has been maintained and the strenuous efforts of the management to reduce operating costs are worthy of cognizance. The management is encouraged with the interest which has been manifested in its new Diesel engine and with a substantially larger volume of unfilled orders on hand at the beginning of the current year, prospects would seem to favor at least a moderate improvement in earnings. Substantial market price appreciation in the common stock is likely to await definite and tangible evidence of sustained improvement but, under the circumstances mentioned above, it would seem advisable to retain present commitments as opposed to a sacrifice sale.

Bank, Insurance and Investment Trust Stocks

Quotations as of Recent Date

NATIONAL BANKS	Bid	Asked
Bank of America, N. A. new	180	190
Chase (18A)	533	538
Chatham & Phenix (16)	570	585
Chemical (24)	920	940
City (20A)	820	830
Commerce (18)	595	605
First (N. Y.) (100A)	3925	4000
Hanover (30)	1300	1350
Park (24)	685	695
Public (16)	760	775
Seaboard (16)	785	805
TRUST COMPANIES		
Amer. Ex-Irving Tr. (14)	428	425
Bankers (20) ex rts	925	935
Bank of N. Y. & Trust Co. (18)	685	705
Brooklyn (30)	1100	1200
Central Union (32)	1620	1660
Empire (16)	418	428
Equitable (12)	454	459
Farmers' L. & T. (20)	790	818
Guaranty (16)	624	629
Manufacturers (new)	222	227
New York (20)	735	750
United States (60)	3150	3300
STATE BANKS (NEW YORK)		
Corn Exchange (20)	630	640
Manhattan Co. (16)	735	745
State (16)	700	720
United States (14)	690	715
INSURANCE COMPANIES		
Aetna Fire (24)	760	790
Aetna Life (12)	830	860
{ *Fidelity-Phenix (2)	79	82
{ Continental new (2)	78	79
Glens Falls (1.60)	55	60
Globe & Rutgers (40)	2500	2600
Great American (1.60)	46	49
Hanover (1)	76	80
Hartford Fire (20)	775	805
{ *Home (20)	520	535
{ *Carolina (1.40)	60	66
Milwaukee Mech. (1.80)	45	50
National Fire (25)	950	1050
Niagara new	125	133
{ *North River (6)	310	330
{ *United States Fire (2.40) (new)	94	98
Stuyvesant (6)	275	300
Travelers (24)	1725	1800
Westchester (2.50)	84	88
SURETY AND MORTGAGE COMPANIES		
American Surety (11)	275	295
National Surety (10)	303	305
Lawyers Mortgage (14)	340	355
Mortgage Bond (8)	160	180
JOINT STOCK LAND BANKS		
Chicago	25	32
Dallas (8)	120	126
Des Moines	8	15
First Carolina (8)	..	80
Lincoln (6)	91	100
Southern Minnesota	8	16
Virginia (B40c.)	2½	3½
INVESTMENT TRUST SHARES		
American Founders Trust com	96	104
Do 6% Pfd.	43½	48½
Do 7% Pfd.	49	54
Diversified Trustees Shares	20	20¾
Do Series B	18	18¾
Financial & Industrial Sec. com	109	111
Do Pfd.	102	107
Fixed Trust Shares	17⅝	18⅜
Insuranceshares, B 1928	23⅝	24⅝
Interl. Sec. Corp. of Amer., B	35	42
Do A	58	64
Do 6% Pfd.	90	96
Oil Shares, Inc. (units)	72	74½
Second Interl. Securities	47	54
Do 6% Pfd.	42	47
U. S. & British Internl. cft	72	76
U. S. Shares, Series A-1	12¼	12¾
Do Series B	44⅛	45⅛

(A) Includes dividends from Securities Company. (B) Par $5. * Members same group.

FOLLOWING the June break, which carried many of the high priced financial institution stocks off 100 points or more, investment buying induced by the lower quotations, brought about a rise in prices during the early part of July. The rally proved to be short lived, however, and after this buying force spent itself, the market turned dull and bank and insurance stocks again drifted lower. Toward the close of the month, holders of these shares saw quotations even lower than those which prevailed at the end of June.

In a period of low money rates, the yields currently obtainable in the bank stock market would undoubtedly prove tempting, but from the income standpoint, higher money rates and more liberal income from bond investments are attracting capital into other channels. Speculators in bank stocks have become discouraged by the rapid disappearance of paper profits and are not doing much in this market. The *Bancitaly* spectacle not so long ago has frightened away many of the small investors who were dabbling in the bank stock market for a profit.

On the constructive side, it is pointed out that the liquidation of bank and insurance stocks which heretofore were not lodged in strong hands has also largely spent itself by this time. The present market is a good deal more advantageous buying market in respect to the spread between bid and asked prices which is narrower on the average than when the market was advancing in previous months. Buyers are not compelled to "reach up" for the high priced issues and can afford to be patient in placing their orders without seeing the market run away from their buying level. The bank statements for the twelve months ended June 30 show some improvement, even though the first half of this period was not a particularly favorable one for bank earnings, due to the low loan rates that then prevailed. The present period of "tight money" is not undesirable from the standpoint of bank income, and the large metropolitan banks should do well this year if they continue to hold their record deposits.

Although trading is similarly dull, the insurance stocks seem to be doing better than bank stocks. Fire and life companies are both making gains in their underwriting business, and no doubt will turn the present market situation to their advantage as far as investment income is concerned. The fire companies are making more money on their fire risks, due to operating economies and their lower ratio of losses that result from better underwriting practices and the fruits of many years of fire prevention activities.

RESERVE SYSTEM AND THE PRESENT MONEY SITUATION

By GROSVENOR JONES

(Continued from page 552)

other nations have too little, it is obvious that the welfare of the world will be served by a redistribution of gold. Since we are a large and growing factor in the international financial and commercial community, the world interest is identical with ours in this respect. The mechanics of redistribution present difficulties, just as a surgical operation for the removal of an abnormal growth from the body does, but that is no reason why we should retain the growth.

We have a competent surgeon to handle the gold operation in the Federal Reserve System. It treated the gold tumor, if we may call it such, while it was growing, in a way that prevented malign complications and confounded the many prophets of a disastrous outcome. I am confident that the Federal Reserve System will so direct the outgo of gold that there will be no untoward results.

The time will come when we shall marvel at the success with which we neutralized the abnormal effects of a surplus of gold. I do not undertake to say just how much our gold stock might be reduced. Possibly the margin of excess under changed conditions is not great—some competent authorities declare that there is no excess. Events will determine, but we shall deal with them competently—and we shall find that another trouble consisted entirely of worry.

Important Corporation Meetings

Company	Specification	Date of Meeting
Independent Oil & Gas	Directors	7-28
Miller Rubber	Pfd. Div.	7-28
Allied Chemical & Dye Corp.	Directors	7-31
Pittsburgh Steel	Pfd. Div.	7-30
Texas & Pacific Ry	Directors	7-30
Illinois Central	Pfd. & Com. Div'ds.	7.31
Inland Steel	Dividend	7-31
International Shoe	Directors	7-31
Studebaker Corp	Pfd. & Com. Div'ds.	7-31
U. S. Steel Corp.	Pfd. & Com. Div'ds.	7-31
Certain-teed Prod. Corp	Directors	8-1
Fed Lt. & Trac.	Pfd. & Com. Div'ds.	8-1
Lehigh Valley R. R.	Directors	8-1
Northern Pacific Ry.	Exec. Committee	8-1
Radio Corp. of America	Pfd. Div'd.	8-3
Amer. Bond & Share Corp.	Directors	8-6
Brunswick-Balke-Collender	Directors	8-6
Endicott Johnson	Directors	8-6
International Nickel	Directors	8-6
McCrory Stores Corp.	Cl. A & B Div'ds.	8-6
Miami Copper	Directors	8-6
Paramount Famous Lasky	Special	8-6
Amer. Express	Directors	8-7
Standard Oil (Nebraska)	Directors	8-7
Amer. Sugar Ref.	Pfd. Div.	8-8
Cluett Peabody & Co.	Directors	8-8
Gillette Safety Razor	Directors	8-8
Marland Oil	Directors	8-8
Woolworth, F. W. & Co.	Directors	8-8
Amer. Inter. Corp.	Directors	8-9
California Packing Co.	Directors	8-9
Gen. Mot. Corp.	Pfd. & Com. Div'ds.	8-9
Hudson & Manhattan	Directors	8-9
National Dairy Prod. Corp.	Directors	8-9
Sears, Roebuck & Co.	Special	8-9
Underwood-Elliott-Fisher	Directors	8-9
Simms Petroleum	Directors	8-10

New York Curb Market

IMPORTANT ISSUES

Quotations as of July 18

Name and Dividend	1928 Price Range High	Low	Recent Price
Albert Pick Barth wi.†	12½	9	10
Aluminum Co. of Amer.	197¾	120	140
Aluminum pfd. (6)	110¼	105½	108
Amer. Cigar (5)	162½	132	146
Amer. Cyanamid "B" (1.60)	53⅛	33⅛	33¼
Amer. Cyanamid pfd. (6)	103	95	100⅛
Amer. Gas Elec. (1)‡	184	117½	155¾
American Rayon Products	24	13	19⅝
Amer. Super Power A (1.2)†	56	35	36⅛
Assoc. Gas Elec. "A" (2¼).	56¾	47	48
Celotex Co. (3)	69¾	49	55
Centrif. Pipe (0.60)*	12⅛	8¼	11⅛
Cities Service New (1.2)†	71¼	54	65¾
Cities Service Pfd. (6)†	103½	94⅛	99⅛
Cons. Gas of Balt. (3)	92⅞	67½	78
Consolidated Laundries (2)*.	20¼	14	14
Durant Motors†	16	9⅛	13⅛
Elec. Bond Share (1)†	127½	76	99⅜
Elect. Investors† (3.50 stk.).	79⅞	40⅛	58⅛
Fajardo Sugar (10)	165½	150⅛	155
Ford Motor of Canada (15)	698	510	535
General Baking (new)*	17	6⅛	9¾
General Baking Pfd. (new)*	86	74⅞	76
Glen Alden Coal (10)†	169	150⅛	150⅛
Gulf Oil (1.5)†	148½	101⅛	122
Happiness Candy Store (50).	9⅜	5⅛	6
Hecla Mining (0.60)	18	13	15¼
Hygrade Food Products	45½	25⅛	36⅛
International Utilities B	19½	6¾	16⅝
Land Co. of Florida†	25	13	13⅛
Lion Oil Refining (2.25)*	32⅜	20	28⅛
Lone Star Gas (2)	57	48⅛	52⅞
Metro Chain Store‡	66	54	60
Mountain Producers (2.60)†.	28⅞	22⅝	22⅝
National Fuel Gas (1)	30½	24¾	26⅛
New Mex. & Arizona Land†.	11⅜	7½	7⅛
New Jersey Zinc (12)	260	180¼	215
Nipissing Mining (80c)*	5⅞	3⅝	3⅝
Northern Ohio Power†	32	18	27¾
Phelps Dodge (6)	148	117	133⅛
Puget Sound P. & L.†	94⅞	34⅝	81
Salt Creek Producers (3)†	35	27	27¾
So'east Pwr. & Lt. (1)	61	40⅝	49¼
So'east Pwr. & Lt. Pfd.. (4).	92	84	89
Stutz Motors*	19	14⅛	15⅛
Tobacco Products Export†	4⅝	3	3¼
Transcontinental Air Trans..	35½	20⅛	22⅛
Trans Lux	7	2¼	3⅝
Tubize Artif. Silk† (10)	630	450	508
Tung-Sol "A" (1.80)	24⅜	19⅝	20⅜
United Electric Coal (3)	57½	26¼	53
United Gas & Improvem't (4)	150	111¼	133⅛
U. S. Gypsum (1.60)	100	57⅝	57⅝
STANDARD OIL STOCKS			
Continental Oil	23	16	16¼
Humble Oil (1.6)†	84⅞	59¼	77
International Pet. (.75)	51¼	35	38⅛
Ohio Oil (2.75)	68¼	58⅛	61
Prairie Oil & Gas†	56	47½	48⅛
Standard Oil of Ind. (3.5)†..	83⅝	70⅞	73⅛
Vacuum Oil (3)†	87⅞	72	75

* Listed in the regular way.
† Admitted to unlisted trading privileges.
‡ Application made for full listing.

RATHER heavy liquidation, followed by a listless but nevertheless firmer market, characterized the trend of transactions on the New York Curb Market during the past fortnight. An earlier attempt to rally the market met with a fair degree of success in the early part of this period, with buying of some substance coming into the market particularly for the oils and utility shares. This came to an abrupt end, however, with the increases in Federal Reserve Bank rates and selling was general throughout the list. In the utility group, the fortnight closed with uniformly lower levels; *American Gas & Electric* was off ten points; *United Gas & Improvement* and *Puget Sound Power & Light* lost about six points each, and similar losses were recorded in *Electric Bond & Shares* and *Electric Investors*.

The Standard Oil stocks held up well, resisting the decline brought about by liquidation in other sections of the market and showing a tendency to recover as soon as the pressure was lifted. These shares appear to have a strong technical position in the current market, with very impressive buying coming into the market on recessions. With the immediate outlook for the industry, none too bright however, and a rather unfavorable general market situation, this group has come to move within narrow limits during the past few weeks. Other oil shares were fairly steady, notwithstanding a ten point drop in *Gulf Oil* during the fortnight under review.

High priced shares fell off considerably but with no appearance of general liquidation. *Ford Motors of Canada* fell about 25 points and *Tubize Artificial Silk* sold off over 60 points to 500 closing the period slightly above this level. *American Rayon Products* made a sharp week-end run up to 22½ but receded in latter sessions when the rest of the list came under heavy selling pressure. *U. S. Gypsum*, selling ex-dividend and ex-rights, rules at a new low dollar value, but corresponding to a price of around 85 for the old basis. *American Cyanamid B* stock at the current level of around 34 occupies a similar position, this being an "ex-rights" quotation which corresponds to the price which prevailed prior to the recent market decline. In this instance, however, the management having declared its intention of maintaining the present $1.60 annual dividend on the increased number of shares, a yield of approximately 5% is now obtainable. The three million dollars cash received by the company through this financing will be used to expand the company's plants at Niagara Falls and for new property recently acquired at Linden, N. J. This expansion will increase the company's output of products manufactured by the company for many years and should ultimately be reflected in a stronger earnings position.

RESERVE SYSTEM AND THE PRESENT MONEY SITUATION

By H. PARKER WILLIS

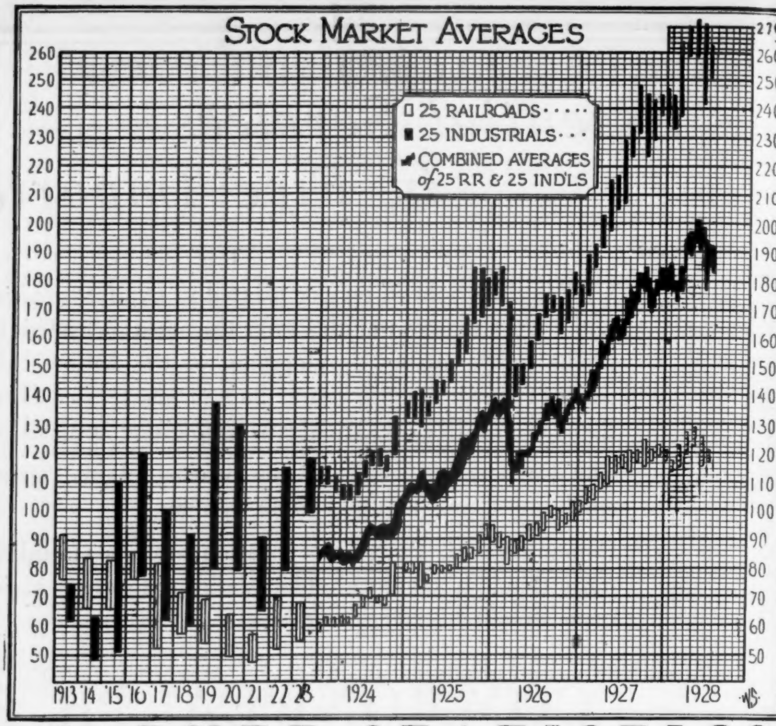
(*Continued from page* 552)

Today the reserve banks are asked to "hold the bag" and to carry the speculative loans which the member banks are no longer able alone to sustain. This merely repeats the experience of the reserve system on several former occasions. The authorities of the system had that full acknowledge of the case which came from experience in other years and they had also the warning advice furnished them by capable banking administrators within the system who knew by local indications that there was unmistakable danger ahead. Against this was merely the unfounded suggestion that low rates here would help Great Britain in the maintenance of her resumption plans. The help rendered has merely redounded to the advantage of British inflationists and American expansionists. The reserve system must take full responsibility for its refusal to follow the dictates of experience both at home and abroad. A large measure of this responsibility unavoidably accrues to the Federal Reserve Board.

Important Dividend Announcements

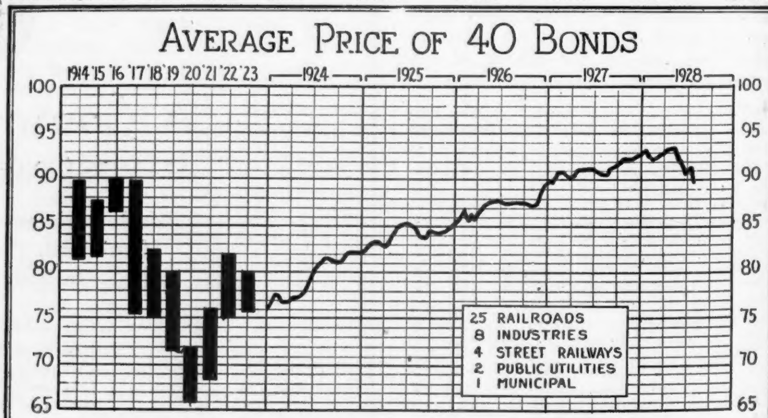
Note—To obtain a dividend directly from the company the stockholder must have his stock transferred to his name before the date of the closing of the company's books.

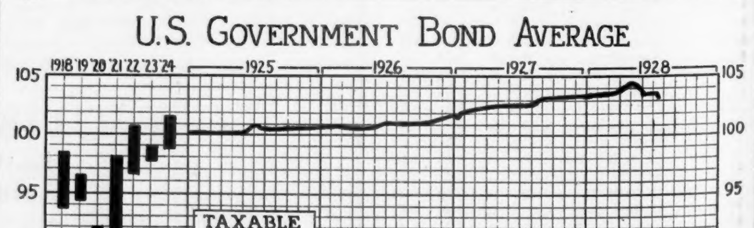
Ann'l Rate		Amount Declared		Stock Record	Payable
$2.00	Amer. Can. cm......	$0.50	Q	7-31	8-15
7.00	Am. Smelt & Ref. Pd.	1.75	Q	8-3	9-1
Stk	Am. Water Wks Com..	1/40th	SA	8-1	8-15
$1.00	Am. Water Wks om..	$0.25	Q	8-1	8-15
6.00	Assoc. Dry Gds Pfd..	1.50	Q	8-11	9-1
7.00	Assoc. Dry Gds. Pfd..	1.75	Q	8-11	9-1
6.00	Assoc. G & El Pfd..	1.50	Q	7-31	9-1
6.50	Assoc. G & El Pfd..	1.62½	Q	7-31	9-1
10.00	Atch Top & S Fe cm..	2.50	Q	7-27	9-1
7.50	Beacon Oil Pfd......	1.87½	Q	8-1	8-15
3.00	Bruns.-Balke-Coll om.	0.75	Q	8-5	8-15
8.00	Cent. R.R. of N. J...	2.00	Q	8-3	8-15
5.00	Continental Can Cm..	1.25	Q	8-4	8-15
4.00	Gen'l Cable Class A..	1.00	Q	8-10	9-1
5.00	Gillette Safe Raz....	1.25	Q	8-1	9-1
5.00	Hudson & Man Pfd...	2.50	SA	8-1	8-15
3.00	Ingersoll Rand com..	0.75	Q	8-6	9-1
7.00	Inter Harvester Pfd..	1.75	Q	8-4	9-1
2.40	Inter'al Paper Com..	0.60	Q	8-1	8-15
6.00	Inter'al Shoe Pfd....	0.50	M	8-13	9-1
4.00	Lehigh Coal & Nav..	1.00	Q	7-31	8-31
6.50	Loew's Inc $6.50 Pd..	1.62½	Q	7-28	8-15
6.50	Louisiana Oil Pfd....	1.62½	Q	8-1	8-15
4.00	May Dept Stores....	1.00	Q	8-15	9-1
1.50	Miami Copper	0.37½	Q	8-1	8-15
4.00	Mont-Ward & Co. Cm.	1.00	Q	8-4	8-15
4.00	Nat. Supply Co Com..	1.00	Q	8-4	8-15
4.00	Nor'f & W Adj Pfd..	1.00	Q	7-31	8-18
4.00	Oppen Collins Com..	1.00	Q	7-27	8-15
3.50	Pennsylvania R. R..	0.87½	Q	8-1	8-31
6.00	Pub Serv N J Pfd....	.50	M	8-3	8-31
6.00	Pullman Co.	1.50	Q	7-31	8-15
.50	Pure Oil com.......	0.12½	Q	8-10	9-1
8.00	Sinclair Con Pfd....	2.00	Q	8-1	8-15
6%	Sun Oil Pfd.	1½%	Q	8-10	9-1
7.00	Tobacco Prod A.....	1.75	Q	7-25	8-15
5.00	Woolworth, F W....	1.25	Q	8-10	9-1



MARKET STATISTICS

	N. Y. Times 40 Bonds	Dow, Jones Avgs. 20 Indus.	Dow, Jones Avgs. 20 Rails	N. Y. Times 50 Stocks High	N. Y. Times 50 Stocks Low	Sales
Thursday, July 5	91.20	214.43	139.48	192.32	189.48	2,268,038
Friday, July 6	91.09	212.49	139.31	191.56	189.87	1,867,870
Saturday, July 7	91.15	213.55	139.83	191.52	190.57	783,700
Monday, July 9	91.15	213.86	139.66	191.89	190.08	1,798,820
Tuesday, July 10	91.07	212.71	138.65	192.14	189.57	1,881,150
Wednesday, July 11	90.73	206.43	136.77	189.18	186.31	2,796,520
Thursday, July 12	90.54	206.71	136.13	186.76	184.28	2,496,240
Friday, July 13	90.44	207.83	136.56	187.01	184.41	1,807,760
Saturday, July 14	90.11	207.77	136.48	186.90	186.21	501,970
Monday, July 16	90.11	205.10	135.31	185.47	[illegible]	[illegible]
Tuesday, July 17	90.05	206.42	135.39	185.57	183.68	1,294,240
Wednesday, July 18	89.32	209.30	135.86	187.50	185.55	1,443,290





BY RAIL AND AIR

(*Continued from page 557*)

Born in New Albany, Ind., little did the General think as a boy, that airplanes would be flying over his old home, or that he would be at the head of a great railroad system that would be the first to join forces with that new form of transportation in a service that would take people from ocean to ocean in forty-eight hours. Little did General Atterbury think later, when an apprentice in the Pennsylvania shops at Altoona, Pa., that in scarcely more than forty years right there equipment would be handled that would be put into such a service.

Still, when, in the passing of the years, the matter was presented to him he was quick to see its possibilities and to go into the entirely new undertaking. Quite possibly, when, during the World War, he was in charge of construction and operation of military railways in France, he realized more fully than ever before that airplanes could do what no railroad could do, and even then saw the possibilities of a combined air and rail service in this country, in which the great system that he had left behind for a time as vice-president, and of which he is now the head, would be the pioneer.

It may be noted right here that those most prominently connected with the Transcontinental Air Transport got many of their preliminary ideas with regard to commercial flying from what they had observed of such services in Europe. Since going into the proposed rail and air service the Pennsylvania Railroad has sent two of its prominent passenger traffic officials to Europe to get more ideas.

That age is no bar to vision is conclusively shown by the fact that W. B. Storey, seventy-one, engineer and president of the Atchison, also has this wonderful gift in a big way.

When C. M. Keys first talked over the proposed Pennsylvania-Transcontinental Air Transport-Atchison service with Mr. Storey, he said at once that his company would co-operate in every way possible, going so far as to change train schedules where practicable. The Pennsylvania, it has been announced, has taken a financial interest in the Transcontinental Air Transport, but so far the Atchison has not, nor has it been asked to do so.

The Pennsylvania will have charge of the routing of west bound passengers. The two railroads will each take their share of the fare, for the service they render, and so will the Transcontinental. The latter's rate has not been definitely fixed. Certainly, at the start it will be more than the railroads would charge. The air rate, however, will be reduced as volume of traffic increases.

The planes will carry from fifteen to twenty passengers. The number of

San Francisco Stock and Bond Exchange

THIS table is published regularly for the convenience of those of our subscribers and readers who are, or may be, interested in leading Pacific Coast securities.

Bank and Public Utility Stocks

	Div. Rate	1928 High	1928 Low	Last Sale July 19
Anglo & London Paris Nat. Bank	$10.00	295	225	254
Bancitaly Corporation	2.24	290¼	100	111¾
Bank of Italy	5.24	311½	125	181½
East Bay Water A, Pfd	6.00	99	86	88
Great Western Power Pfd	7.00	106⅞	103½	105½
Los Angeles Gas Pfd	6.00	112¼	105¼	108⅜
Pacific Telephone & Tel. Pfd	6.00	125½	113½	121
Pacific Gas & Elec	2.00	53¼	43⅞	48

Industrials and Miscellaneous

	Div. Rate	1928 High	1928 Low	Last Sale July 19
Alaska Packers' Assn	8.00	160	160	160
California Packing	4.00	79¼	69⅛	70
California Petroleum	1.00	31¾	23⅝	31⅛
Caterpillar Tractor	1.40	75½	53	65
Firemen's Fund Insurance	5.00	127	110	113¾
Foster & Kleiser (cm)	1.00	19	12	14
Hale Brothers	2.00	31	25	25½
Hawaiian Coml. Sugar	3.00	56	46	51
Hawaiian Pineapple	1.80	52½	41	53
Home Fire & Marine	1.60	49¼	37½	39
Honolulu Cons. Oil	2.00	43	35	38½
Hunt Brothers Packing "A"	2.00	28¼	22	23½
Illinois Pacific Glass "A"	2.00	62	42	52
North American Oil	3.60	43	36	39⅜
Paraffine Common	3.00	109½	79	83½
Richfield Cons. Oil	1.00	52	23¼	47
Schlesinger A Common	1.50	27¼	20	20⅝
Shell Union Oil	1.40	29¾	24	26¼
Southern Pacific	6.00	128½	118¼	119
Sperry Flour Common	...	85	60½	72
Spring Valley Water	6.00	120	95½	95½
Standard Oil of Calif	2.50	62⅞	53	57½
Union Oil Associates	1.99	57½	41½	52⅝
Union Oil of California	2.00	57¼	42½	50⅞
Yellow & Checker Cab "A" new Stock*	4.00	58¾	51	52¼
Zellerbach Corporation dep. cts	2.00	49⅞	34	40¼

* Par raised from $10 to $50.

patrons of the combined service is expected to increase steadily from the very beginning and rapidly after it gets under way. The Transcontinental is likely to have some red figures in its operating results during the early stages of the new service. Probably the railroads will not get many extra passengers within that time, and they will even lose to the Transcontinental the fares that they would have received for carrying the passengers all the way.

Railway executives are confident, however, that when once it gets started combined rail and air service will grow rapidly. Whether it does or not they propose to be on the ground when the first gong sounds. They are equally determined not to be open to censure as they have been for not adopting the motor bus service when it first began to appear. Most of these executives are willing to admit, at least unofficially, that they will never be able to make up the passenger traffic that they have lost to the motor bus.

Charles Donnelly, Northern Pacific president, says, however, that the railroads of the United States have lost far more passenger traffic because of the privately owned automobile than by the coming of the motor bus. It is estimated that already the former is making three times the passenger mileage of the railroads. In his judgment the railroads can overcome the loss from the former source only in a small way, and then chiefly by giving the best service possible and by convincing people that it is safer, and in many cases more comfortable, to go by rail than by the private car. As yet the Northern Pacific has not gone into a definite combined rail and air service although its passengers can go from St. Paul to Chicago by air if they choose, catch the Twentieth Century Limited and save a day in reaching New York.

While not willing at the moment to make estimates in figures as to what combined rail and air service will mean to the railroads, the executives quite generally are confident that its growth later will be more rapid than now seems probable or scarcely possible. For a time it is likely to be comparatively slow. Even since the writing of the first sentence of this paragraph Ralph Budd, president of the Great Northern Railway Co., has announced that his company would co-operate with the Transcontinental Air Transport, Inc., in the establishment of joint rail and air lines. Mr. Budd says that the

arrangement will be similar to that recently made with the Atchison. It is learned from official sources that the Transcontinental Air Transport, Inc., has invested about $100,000 in the Northwest Airways, Inc., and it is said that it will have two representatives on the board of the latter company. Apparently it is to become a virtual if not actual subsidiary of the Transcontinental.

The Northern Pacific and the St. Paul, as well as the Great Northern, will co-operate with the Transcontinental in a combined rail and air service, but it is officially stated that no one of the three railroads has taken a financial interest in either of the airplane companies.

According to present plans there will be no combined rail and air ticket arrangement or joint routing of passengers. The train conductors of the three roads probably will be instructed to make telegraphic reservations for passengers wishing to go by air from the Twin Cities to Chicago. Later the relations between the railroads and the air transport companies may become closer. Apparently this will depend quite largely on the outcome of the present arrangements, which seem to be tentative and experimental, from the point of view of the railroads. Similar arrangements by other railroads are likely to follow. In fact, word comes from St. Paul that the Chicago & North Western has had under contemplation an air service between St. Paul and the Black Hills, where President Coolidge established the summer White House last year. That incident has had much to do, President Sargent of the North Western says, with a rapid development of that section.

According to the contemplated plan the North Western and Omaha roads were considering a daily flight each way between St. Paul and the Black Hills. Summer travelers would thus be able to leave Chicago at 11 P. M., change to the air at St. Paul in the morning and arrive in Rapid City for dinner, a saving of twelve to fifteen hours as compared with all rail travel. It is believed in St. Paul that the North Western will join with the other large roads in air service between the Twin Cities and Chicago.

Only within the last few days it has been definitely reported, though not officially confirmed, that the New York Central is planning a combined rail and air service with the Union Pacific to meet the competition of the proposed Pennsylvania-Atchison combination.

Already the commercial air companies are planning to extend their own service over routes where as yet it is not possible to go regularly by air. To what extent the growth along these lines will cut down passenger receipts from palatial through trains now in operation remains to be seen. Certainly the railroads will not be able to run an even race with the airplanes as to speed. Whether they can hold the greater part of their passengers on the basis of comfort and safety is also a

problem to be solved in the future.

Another point, the railroads that are among the first to join with the airplane are the most progressive in the country. The securities of such railroads will prove to be the most desirable. No railroad can lag behind the procession these days and succeed. The pace is too fast, competition, particularly for passenger business, far too keen. In the meantime, owners of railroad securities should not lose sight for a moment of the growth of air service alone, or when combined with that of the railroads.

INSURANCE DEPARTMENT

(Continued from page 579)

plement her school pension and augment her old age income. This 30 Year Endowment policy, when taken at age 35, for $5,000, would call for an annual premium of approximately $135.

The business and professional woman in general will find the Endowment Policy an excellent form of life insurance to consider. Endowment policies are issued with an elasticity as to maturity date which will meet the desires of most applicants. While the usual forms run for multiples of five years —i.e., 10 Year Endowment, 15 Year, 20 Year, 25 Year, etc.—companies are usually willing to write Endowments for maturity dates that will meet the special plans of the applicant, as, for example, a 17 Year Endowment for a woman now age 38 who has a definite plan for readjustment of her living conditions at age 55.

For the self-supporting woman who has no dependents, and no need for leaving life insurance proceeds to a beneficiary in event of her death, life companies are issuing particularly interesting contracts, known as "Old Age Income" policies, "Income Bonds" and "Deferred Annuities," whereby an income may be planned in earlier years which guarantees independence in later life. This income may be planned for $25, $50, $100, or still larger amount payable monthly. It may be arranged to have it payable for ten years only commencing at a given age—usually 60 or 65—and continuing for the ten year period; or, what is far preferable, it may be continued throughout life. The approximate cost of a $50 monthly income from a Deferred Life Annuity policy is shown in the accompanying box.

This provides independence for the salaried woman in the Mellow Years of life. It is true that $25 a month may look small to the woman who is now earning six or eight times that amount. It marks, however, the very definite line between penury and a modest independence. Who has not known the elderly woman of 65 or 70 who chafes at her complete dependence on relatives, and to whom $25 a month for the rest of her life would represent a veritable God-send?

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SAFETY FOR 7% SAVINGS

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TRADE TENDENCIES

(*Continued from page* 584)

the fact that fall activity may be a trifle less than in previous years, with the exception of 1927, there is an excellent possibility that ingot production will set a new mark for 1928.

Although tonnage and its effect on output have been quite satisfactory during the first six months, earnings of steel companies have not shown a proportionate gain in accordance with order volume, due to the price situation. Low cost production, of course, is a helpful factor but sellers have been unable to advance prices definitely, although attempts have been made with varying success. More recently there has been a weakening in wire prices and the $2 a ton advance posted at the beginning of the year is now almost a negligible factor. Nevertheless earnings reports for the six months should show a slight increase, while leading companies are in a more favorable position. With cooperation producers should be able to effect a solution for the aggrandizement of profit margins in the balance of the year.

AUTOMOBILES

Outlook Favorable

In comparison with the summer period of 1927 the automobile industry at the present time shows a substantial gain in activity. Considering the seasonal downward trend in other industries and the fact that operations have been on a high plane in past months the decline now in evidence is comparatively slight, reflecting the sustained volume of demand, and conditions are more satisfactory than in several years. The general prosperity embraces not only the low-priced field but medium and higher-priced business has also been very gratifying; and the majority of companies will report marked improvement in earnings. While increased profit margins are due, to a large extent, to the heavy run of business, manufacturers have also been aided by a favorable trend in prices of important raw materials and stable price levels for their own products.

While it is reasonable to expect that operations will show a declining tendency from this time on until the fall, a number of companies have sufficient orders on hand to enable them to continue active schedules during the summer. Moreover, the increasing trend of Ford production should help maintain a generally fair rate of output for the industry as a whole. Manufacturers are beginning to announce new models, although most companies will not be ready to place their designs

on the market until the fall, and this is stimulating order volume. Retail movement of new and used cars has been unusually large, while deliveries have followed the same course. Stocks in hands of dealers at the beginning of June were high but heavy sales have materially reduced the total. Low and medium-priced cars are in excellent demand, with the more expensive models also making a favorable showing, and earnings should reflect the improved position of manufacturers.

LEATHER

Position Satisfactory

Resumption of an upward trend in hide prices indicates that dullness which prevailed in the leather industry during the past two months has about run its course. Unsettling factors responsible for the 15% decline in prices from the April high levels were restricted demand from tanners and weakness in South American markets, while to a lesser degree the prolonged advance in the early part of the year reacted unfavorably on demand. With the corrective setback in prices and elimination of weakness in foreign markets, the opening of the second half finds the industry in a decidedly improved position, not only from a marketing viewpoint but statistically as well. An important development in the leather situation is the small supply of stocks, and, in view of the lower rate of output and heavier consumption, this must ultimately be reflected in stronger prices.

The number of cattle being slaughtered this year is about 10% under 1927, with the prospect that even a smaller amount will be killed next year, as cattlemen are concentrating on the building up of herds in order to take advantage of higher beef prices. This naturally limits the supply of leather for some time to come, possibly two or three years, although the potential source in the meantime is constantly growing larger. On the other hand, the quality of the leather is greatly improved by such an arrangement.

Sole leather prices have been at levels such as to permit heavy leather companies to show substantially increased earnings over 1927; and in view of the fact that the outlook favors the maintenance of steady and gradually advancing quotations results for the full year should be well up to present indications.

BUSINESS PROSPECTS BETTER

(*Continued from page* 559)

part of the year, farmers have enjoyed better prices and, accordingly, their purchasing power has improved. This has been especially reflected in the steady increase in demand for farm equipment. While prices of farm products are not precisely high, cost of production has declined partly as a result of a lower level for fertilizers and other materials and partly because labor has become available at somewhat lower cost, owing to falling off of industrial activities in certain parts of the country. Financially, the farmers appear better off than in some years but, of course, this is only relative, comparison being made with the deplorable conditions affecting the agricultural regions several years ago. However, the situation seems in better control and a certain degree of stability, hitherto lacking, has become more evident.

Retail trade, as exemplified by the large distributive organizations, though not necessarily by small concerns or private shopkeepers, is in a sound condition. For the first six months, sales of leading chain stores showed an increase of 17.1% over the same period last year. Allowance must be made, however, for the fact that the greater portion of the increase is the direct results of expansion in the number of units. Nevertheless, from the national viewpoint the continued growth of sales is reassuring. Department stores have not done so well, it being expected that conditions this year will about duplicate those of 1927. Nevertheless, the latter was a good year from the viewpoint of turnover and profits, and if the department stores match this record in the current year, they will have done well. The two leading mail order houses for the first five months report an increase from about 185 millions to 198 millions. This class of business has made probably the most striking gains of any in recent years and their further progress seems assured.

Warm weather has stimulated both wholesale and retail trade. Vacation buying has reached large proportions and a good summer is assured. Collections seem to be fair.

Conclusion

Thus far the political situation has had little effect upon business. The platforms of both parties are essentially conservative and business people seem to feel that the condition of industry and trade will not be changed as a result of the elections. In the meantime, preparations are being made for an active autumn and winter schedule. The recent increase in Steel unfilled orders indicates strongly that a new buying movement is under way and this probably presages a recovery in general manufacturing. While it is still early to speak of the outlook for the crops, nevertheless, barring any pronounced and unexpected changes in output, the position of the farmer should continue to show slow improvement and this should increase farm purchasing power. The money situation is considerably strained but this bears more heavily upon the securities markets than upon business itself. Accommodations for crop-moving purposes and ordinary business should be ample though probably at rates somewhat higher than for the same period in the last few years. Of course, prolongation of a high money rate might show a tendency to limit the scope of the business increase but if the Federal Reserve Board should succeed in its policy of holding down security speculation, there would be no reason to fear any untoward effects on the business structure. Altogether, while a boom of 1926 proportions appears unlikely at this stage, it is clearly evident that underlying forces are shaping themselves toward a recovery of at least mild proportions.

IMPORTANT FACTORS IN PUBLIC UTILITY SECURITIES MARKET

(*Continued from page* 602)

units, elimination of duplication in service, overhead and other costs, and by reason of better financial management, stronger banking connections and superior legal advice. However, the building up of very complicated financial structures and the aggregation of vast amounts of capital under a single control were viewed by many with great suspicion, the situation was given a great amount of newspaper publicity and was the basis of much hostile criticism in Congress and otherwise.

During February of this year the Senate directed the Federal Trade Commission to make a further inquiry into the organization and the business and financial methods of the various public utility companies engaged in any way in interstate busines despite the fact that these utilities had already been the subjects of constant investigation for several years past under authority of the same Commission, which had recently issued a report showing that no such thing as the so-called "power trust" really existed and that the largest single interest in the industry controlled less than 12% of the electric energy generated.

The principal subjects indicated for inquiry under the latest Senate resolution are: The capital assets and liabilities of the utilities, and the growth of each; whether there is over-capitalization; the methods of issuance and the price received from securities; the relationships with holding companies, and their benefits and detriments; physical interconnections; interstate transmis-

sion of gas and electricity; state regulation of rates and service, and possible federal regulation of them; and any attempts through publicity to control public opinion on municipal and public ownership.

A beginning has been made by the Commission in sending out a preliminary questionnaire to a list of some 8,000 concerns, chiefly for the purpose of finding out just which of them fall, by reason of their operations, within the proper scope of the more detailed investigation to follow.

The task prescribed for the Commission is a very large one indeed and will doubtless require a long time to complete. Although a monthly report to the Senate indicating progress being made is required, the completion of the inquiry and its ultimate results and recommendations are, of course, as yet highly uncertain. The officials of the utility companies stoutly maintain that their activities and methods have been strictly legal and proper and in absolute harmony with the best interests of business and the general public, and that they have nothing to fear from any fair and impartial tribunal, or from a fully informed public opinion. Certainly nothing has yet been disclosed to justify the claims of corruption so loudly made some time ago. It seems reasonable to assume that after the excitement of these political investigations has subsided whatever abuses may be discovered will be corrected and the industry will continue, uninterrupted, its vigorous forward march.

The great confidence of the investing public in the future of the public utilities has been very amply demonstrated in the market action of the securities of the various important companies during the recent drastic reaction in the general financial markets. Less than almost any other class of active market securities did the issues of the high grade, established public utility companies suffer in the general decline. Over the past several years the earnings of practically all representative companies have shown a rapid and consistent increase, both in gross and net, and this rate of gain has been relatively unaffected by the recurrent cycles of prosperity and depression in general industrial conditions.

With a background of such stability and strength, and with a future outlook for development exceeded by no other industry or group it seems certain that investors will gladly continue to pour millions, and billions, of dollars into the upbuilding of our great light, power, gas, telephone and other public utility enterprises.

WHY WATER COMPANY BONDS APPEAL TO INVESTORS

(*Continued from page* 613)

public utility industries, because, as previously indicated, a water company's assets are of a relatively permanent character, such as real estate, buried water mains and slow-moving machinery. A water company, furthermore, has practically no selling expense. When a new dwelling house is built, for instance, the company is asked to supply water as a matter of course, and no advertising is necessary to induce people to use more water.

Marketability The real investor, as distinguished from a speculator, buys investments to put away permanently as income-producing property. Nevertheless, circumstances might possibly develop which would require the converting of his holdings quickly into cash. The discriminating investor provides for this contingency by selecting securities of a type which can be sold readily at any time in any recognized market. Water company bonds, as stated, are extensively owned throughout the United States, and their worth is so widely recognized that the constant demand for them by banks, institutions and private investors creates an active market in all the principal financial centers.

Insurance Companies Large Holders Of all classes of security buyers, insurance companies probably exercise the greatest care in selecting bonds. Furthermore, insurance companies demand investments of the most substantial and permanent nature. They are vitally interested in the security of the investment at its maturity many years hence, and they buy with no idea of disposing of the bonds until maturity. It is quite significant, therefore, that water bonds in large blocks have been purchased and are being held by many of the largest life, fire and casualty insurance companies. This shows their judgment as to the permanency of the security behind water company bonds. These companies have been rapidly increasing their investments in such securities in recent years.

NEW ISSUE

$12,000,000

TRANSCONTINENTAL OIL COMPANY

First Mortgage Ten-Year 6½% Sinking Fund Gold Bonds

With Detachable Stock Purchase Warrants

To be dated July 1, 1928 **To mature July 1, 1938**

Authorized $15,000,000.00. To be presently issued $12,000,000.00 Redeemable on any interest date as a whole or in part at the option of the Company after thirty days' published notice, the redemption price to be at the holder's option, 110 and interest if unexpired appurtenant stock purchase warrants are surrendered with the bonds, or 100 and interest if such warrants are not so surrendered. Principal and interest payable in Chicago at The People's Trust and Savings Bank of Chicago or at the option of the holder in New York City at International Germanic Trust Company or in Baltimore, Maryland, at Union Trust Company of Maryland. Coupon Bonds registerable as to principal, in denominations of $1,000 and $500. Interest payable January 1 and July 1, without deduction for any Federal Income Tax not in excess of 2% per annum which the Corporation or Trustee may be required to withhold. Company agrees to refund, upon proper application, to holders of these bonds, any valid tax assessed and paid under the laws of any state of the United States, to the extent of five mills per year upon each dollar of principal thereof; and the Massachusetts State Income tax not in excess of 6% per annum of the interest thereon.

THE PEOPLES TRUST AND SAVINGS BANK OF CHICAGO, CORPORATE TRUSTEE

The mortgage carries a sinking fund applicable to the retirement of bonds by lot. In respect of bonds called through the sinking fund the holder thereof has the option of surrendering the bonds with any unexpired stock purchase warrants thereto appertaining and receiving therefor 110 and accrued interest, or of retaining such warrants and receiving for the bonds par and accrued interest.

Each Bond will carry a detachable warrant which will entitle the holder to purchase 20 shares of Transcontinental Oil Company Common Stock for each $1,000 principal amount of Bonds held (and proportionately for $500 principal amount of Bonds held), upon the following terms:

On or before July 1, 1929	at $ 9.00 per share
Thereafter and on or before July 1, 1930	at 11.00 per share
Thereafter and on or before July 1, 1933	at 15.00 per share
Thereafter and on or before July 1, 1936	at 20.00 per share

The stock purchase warrant agreement will contain provisions designed to protect the warrant holders against dilution of their rights in case of the issuance of additional stock or stock purchase warrants, recapitalization, consolidation, merger or sale.

From the letter of Mr. F. B. Parriott, President of the Company, we summarize as follows:

Business: Transcontinental Oil Company, incorporated in Delaware, started operations in August, 1919, and has developed a well-rounded organization engaged in all phases of the oil industry. For the first four months of the current year, the Company's gross crude oil production has averaged 12,003 barrels per day from 373 wells. In addition to this production, the Company has well in excess of 300,000 barrels per day in its Yates Pool properties (based on official field proration test gauges) pinched in awaiting transportation facilities. The Company, directly or through subsidiary corporations, owns, or has an interest in leases within the United States aggregating 166,968 acres, and in addition, owns interests in large acreage in Mexico, Colombia, S. A., and Roumania.

The Company's refineries, located at Bristow and Boynton, Oklahoma, and Fort Worth, Texas, have a combined daily capacity of 14,000 barrels and are served by 668 miles of pipe lines owned by the Company or its subsidiaries. For the shipment of its products, the Company operates 1,130 tank cars. Cracking plants are in operation at all refineries and those at Boynton and Fort Worth are completely equipped for manufacture of all grades of lubricating oils and wax, as well as gasoline, kerosene and fuel oil. The Company has fourteen casinghead gasoline plants. Refined products are wholesaled and retailed through its own filling and bulk stations and numerous agencies throughout the country under the well known "Marathon" brand.

Purpose of Issue: The proceeds from the sale of these bonds will be applied to the redemption and retirement of all of the Company's funded debt totalling $5,736,000, and to the reduction of the current indebtedness heretofore incurred in the development of the Company's properties, and to provide additional working capital.

Security: These first Mortgage Bonds will, in the opinion of counsel, be secured by a direct First Mortgage Indenture (subject to certain purchase money obligations totalling only $21,302.54) specifically covering all of the Company's refineries casinghead gasoline plants, fee owned filling and bulk stations and interests in developed leases, with the exception of the Company's Fort Worth Refinery and some unused property in Pennsylvania and New York of comparatively small value which the Company proposes to sell. The Indenture will contain a covenant that all undeveloped leases when developed must be specifically subjected to the lien of the Indenture. There will further be pledged under the Indenture the shares of stock owned by the Company in its subsidiary corporations with the exception of its shares of stock in United Producers Pipeline Company. The Company's physical properties have recently been appraised by independent engineers at more than $65,000,000.00. A value of $7,067,664.00 was assigned in the appraisal as the value of the Fort Worth Refinery and the stock of the United Producers Pipeline Company, which, for purposes of convenience in operation, are not subject to the lien of this mortgage. The consolidated balance sheet of the Company and subsidiary corporations as of March 31, 1928, adjusted to reflect the application of the proceeds of this financing to the reduction of current indebtedness, shows current assets of $6,648,692.12 and current liabilities of $1,385,161.98. On the basis of this balance sheet and giving effect to the appraisal of the fixed assets, net tangible assets, after deducting all liabilities except these Bonds, are in excess of $5,700 for each $1,000 Bond of this issue. Following this issue. of Bonds the Company has outstanding $15,750,000.00 par value of 7% Cumulative Preferred Stock and 3,842,029 shares of no par Common Stock. The Common Stock is listed on the New York Stock Exchange. At current prices the shares of Common and Preferred Stocks now outstanding have a market value of approximately $40,000,000.00.

Earnings: The consolidated net earnings of the Company and subsidiary corporations, before interest, depreciation, charge off for dry holes and abandoned leases, etc., and giving effect to elimination of deferred credits, now transferable to Income and Surplus Accounts, as a result of the favorable decision of the Supreme Court of Texas, in the so-called Relinquishment Act cases, as certified by Messrs. Main & Company, certified public accountants, were as follows: For the year ended December 31, 1925, $2,916,082; for the year ended December 31, 1926, $4,197,331; for the year ended December 31, 1927, $1,608,767; for the 3 months ended March 31, 1928, $418,367, or at an average annual rate of $2,812,476 for the three and one-quarter years. These earnings are at the rate of 3.60 times interest requirements on this issue. Earnings for the same period before interest, but after all charges for depreciation, dry holes, abandoned leases, etc., amounted to $1,407,478 in 1925; $1,779,637 in 1926; $406,073 deficit in 1927; $165,864 profit for the first quarter of 1928, or an average of $906,740 per annum. The earnings as stated above reflect the income from only a very small portion of the production from the Company's Yates Pool properties, which, it has been conservatively estimated in the independent report to the bankers, will produce 100,000,000 barrels of oil. Additional pipe line facilities are now making possible the marketing of this oil in an increasing volume. A substantial profit can be realized in marketing this oil even at its current low price.

Sinking Fund: The Trust Indenture securing these Bonds will provide that the Company shall in the years 1929 to 1937, both inclusive, pay to the Corporate Trustee, in semi-annual installments, a sum equal to 20% of the Company's earnings, on the basis of a consolidated statement of the Company and its subsidiary corporations, for the preceding calendar year, such payments to be applied by the Corporate Trustee to the redemption by lot of outstanding bonds. Such earnings as a basis for this sinking fund reserve are to be ascertained after deduction of all operating charges including the annual charge-off for dry holes, cancelled leases, interest, Federal income tax and all other taxes, but excluding depreciation, depletion and/or amortization of securities discount.

In the three years ended December 31, 1927, the above Sinking Fund would have been as follows: 1925, $147,849; 1926, $437,463. No funds would have been available for Sinking Fund purposes in 1927, which was generally considered as an exceptionally poor year in the oil industry. This is an annual average of over $195,000, assuming interest charged on the entire new issue against earnings, but giving no effect to the use of the additional funds received from the present issue and no appreciable effect to production in the Yates Pool. This Sinking Fund, therefore, depends upon future realization of present favorable developments in the Company, which we believe will result in substantial sums being available in the future for the retirement of this issue.

The Company agrees to make application to list these Bonds on the New York Stock Exchange

These Bonds are offered when, as and if issued and received by us and subject to the approval of counsel, Messrs. Pam and Hurd for the Bankers, and Mr. J. Charles Adams for the Company. Books and accounts audited by Main & Company, Certified Public Accountants. Appraisal by Mr. Wm. E. Wrather, Dallas, Texas.

Transcontinental Oil Company 7% Notes due April 1, 1930, with stock purchase warrants attached will be accepted in payment for these bonds at 105 and accrued interest; without stock purchase warrants attached the 7% Notes will be accepted at 101 and accrued interest.

Price 100 and Interest, yielding 6½%

GORRELL & COMPANY, Inc. **STEIN BROS. & BOYCE**

We do not guarantee the statements and figures herein, but they are taken from sources which we believe to be reliable

Pacific Gas and Electric Co.

San Francisco, California

The Company operates in thirty-eight counties in Northern and Central California, with an area of 61,000 square miles and a population of 2,500,000. In this field, one of the most rapidly growing sections in the country, it serves approximately 350 cities and towns, as well as an extensive and diversified rural area. In 1927, sixty-two per cent of its revenues were derived from sales of electric energy, thirty-five per cent from gas sales, and three per cent from minor activities.

INCOME ACCOUNT

Twelve Months Ended April 30th

	1928	Increase
Gross Revenue, including Miscellaneous Income	$55,844,816	$2,935,542
Maintenance, Operating Expenses, Rentals, Taxes (incl. Federal Taxes) and Reserves for Casualties and Uncollectible Accounts	30,216,900	176,302
Net Income	$25,627,916	$2,759,240
Bond Interest and Discount	9,243,725	348,600
Balance	$16,384,191	$2,410,640
Reserve for Renewals and Replacements	5,090,194	823,671
Balance to Surplus	$11,293,997	$1,586,969
Dividends Paid on Preferred Stock (6%)	4,295,984	582,158
Balance	$ 6,998,013	$1,004,811
Dividends Paid on Common Stock (8%)	5,121,151	895,087
Balance	$ 1,876,862	$ 109,724

BALANCE SHEET, APRIL 30, 1928

ASSETS

Plants and Properties	$304,954,056
Investments	16,753,292
Discount and Expense on Capital Stock	9,265,955
Trustees of Sinking Funds (Uninvested Funds)	300,794
Current Assets, including $12,044,200 Cash	49,058,290
Deferred Charges: Unamortized Bond Discount and Expense, etc.	9,608,422
Total Assets	$389,940,809

LIABILITIES

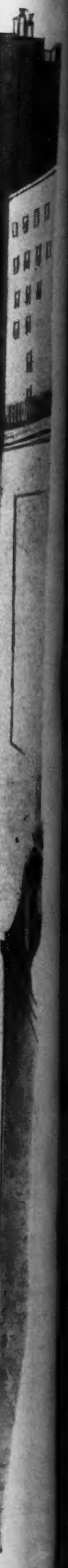
Common Stock Outstanding		$ 72,057,865
Preferred Stock Outstanding		78,909,807
Stock of Subsidiary Companies Owned by Public		1,156
Funded Debt in Hands of Public		189,487,000
Current Liabilities		12,705,709
Reserve for Renewals and Replacements	$20,231,621	
Other Reserves	3,348,261	
Surplus Unappropriated	13,199,390	
Total Surplus and Reserves		36,779,272
Total Liabilities		$389,940,809

RECORD OF TEN YEARS' GROWTH

Year Ended Dec. 31	Gross Oper. Revenue	Sales of Electricity K. W. H.	Sales of Gas Cubic Feet	Number of Consumers Dec. 31	Number of Stockholders Dec. 31
1917	$19,813,381	587,144,000	8,537,925,000	450,657	8,141
1922	38,593,562	1,098,123,000	12,353,849,000	645,410	25,265
1923	39,321,535	1,199,063,000	13,674,794,000	710,034	26,294
1924	44,451,586	1,334,035,000	15,277,478,000	763,617	31,859
1925	47,729,079	1,351,798,000	16,200,951,000	813,698	34,863
1926	50,960,571	1,514,981,000	17,482,206,000	874,724	39,149
1927	54,719,227	1,657,965,000	20,214,834,000	967,717	46,068
Gain in 10 Years	**$34,905,846**	**1,070,821,000**	**11,676,909,000**	**517,060**	**37,927**
Increase, %	**176.17%**	**182.38%**	**136.77%**	**114.73%**	**465.88%**

Copies of the Annual Report, including Income and Surplus Accounts and Balance Sheet, certified by Messrs. Haskins & Sells, Certified Public Accountants, may be obtained on application to D. H. Foote, Vice-President and Secretary-Treasurer, 245 Market Street, San Francisco, Calif.

Inquiries regarding the Company are invited



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